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Niagara Mohawk Power Corporation

Financial Statements

For the years ended March 31, 2015, 2014, and 2013

NIAGARA MOHAWK POWER CORPORATION

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Independent Auditor's Report

To the Board of Directors
of Niagara Mohawk Power Company

We have audited the accompanying financial statements of Niagara Mohawk Power Company (the Company), which comprise the balance sheets as of March 31, 2015 and 2014, and the related statements of income, comprehensive income, cash flows, capitalization, and changes in shareholders' equity for each of the three years in the period ended March 31, 2015.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Niagara Mohawk Power Company at March 31, 2015 and 2014, and the results of its operations and their cash flows for each of the three years in the period ended March 31, 2015 in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter

As discussed in Note 2 to the financial statements, the Company has restated its fiscal 2014 and 2013 financial statements to correct an error. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

July 2, 2015

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF INCOME
(in thousands of dollars)

	Years Ended March 31,		
	2015	2014 (Restated)	2013 (Restated)
Operating revenues:			
Electric services	**$ 2,586,376**	$ 2,906,264	$ 2,789,431
Gas distribution	**585,478**	620,268	587,655
Total operating revenues	**$ 3,171,854**	$ 3,526,532	$ 3,377,086
Operating expenses:			
Purchased electricity	**827,611**	1,074,126	880,592
Purchased gas	**247,209**	269,381	247,183
Operations and maintenance	**1,245,829**	1,264,238	1,414,866
Depreciation and amortization	**230,473**	218,660	214,368
Other taxes	**250,876**	254,802	244,803
Total operating expenses	**2,801,998**	3,081,207	3,001,812
Operating income	**369,856**	445,325	375,274
Other income and (deductions):			
Interest on long-term debt	**(100,331)**	(91,664)	(76,407)
Other interest, including affiliate interest	**(10,775)**	(9,383)	(18,385)
Other income, net	**12,692**	16,258	5,717
Total other deductions, net	**(98,414)**	(84,789)	(89,075)
Income before income taxes	**271,442**	360,536	286,199
Income tax expense	**94,873**	126,283	101,582
Net income	**$ 176,569**	$ 234,253	$ 184,617

The accompanying notes are an integral part of these financial statements.

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME
(in thousands of dollars)

	Years Ended March 31,		
	2015	2014 (Restated)	2013 (Restated)
Net income	**$ 176,569**	$ 234,253	$ 184,617
Other comprehensive income (loss):			
Unrealized gains on securities	**407**	715	1,183
Change in pension and other postretirement obligations	**(144)**	1,102	(674)
Total other comprehensive income	**263**	1,817	509
Comprehensive income	**$ 176,832**	$ 236,070	$ 185,126
Related tax (expense) benefit:			
Unrealized gains on securities	**$ (267)**	$ (429)	$ (789)
Change in pension and other postretirement obligations	**94**	(661)	449
Total tax expense	**$ (173)**	$ (1,090)	$ (340)

The accompanying notes are an integral part of these financial statements.

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	Years Ended March 31,		
	2015	2014 (Restated)	2013 (Restated)
Operating activities:			
Net income	**$ 176,569**	$ 234,253	$ 184,617
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**230,473**	218,660	214,368
Regulatory amortizations	**(24,463)**	(38,365)	197,260
Provision for deferred income taxes	**92,502**	96,150	103,841
Bad debt expense	**62,941**	35,248	(18,241)
Loss from equity investments, net of dividends received	**156**	87	354
Allowance for equity funds used during construction	**(13,270)**	(10,040)	(6,869)
Amortization of debt discount and issuance costs	**3,673**	3,692	3,739
Net postretirement benefits expense (contributions)	**23,966**	106,399	(51,085)
Net environmental remediation payments	**(32,575)**	(41,554)	(31,438)
Changes in operating assets and liabilities:			
Accounts receivable, net, and unbilled revenues	**45,914**	(185,417)	(120,104)
Accounts receivable from/payable to affiliates, net	**-**	-	27,296
Inventory	**(12,133)**	(4,938)	15,900
Regulatory assets and liabilities, net	**121,071**	(22,824)	164,907
Derivative contracts	**92,995**	(6,316)	(69,274)
Prepaid and accrued taxes	**(15,454)**	44,261	(13,129)
Accounts payable and other liabilities	**(20,935)**	48,128	(85,830)
Other, net	**22,262**	(9,809)	(15,777)
Net cash provided by operating activities	**753,692**	467,615	500,535
Investing activities:			
Capital expenditures	**(611,438)**	(545,316)	(497,850)
Changes in restricted cash and special deposits	**1,526**	34,982	(16,602)
Affiliated money pool investing and receivables/payables, net	**(221,837)**	(67,483)	89,925
Cost of removal	**(37,966)**	(41,359)	(49,152)
Other	**(1,270)**	(2,750)	(5,614)
Net cash used in investing activities	**(870,985)**	(621,926)	(479,293)
Financing activities:			
Common stock dividends to Parent	**-**	-	(210,000)
Preferred stock dividends	**(1,060)**	(1,060)	(1,060)
Payments on long-term debt	**(600,000)**	(45,600)	(500,000)
Proceeds from long-term debt	**900,000**	-	700,000
Payment of debt issuance costs	**(5,000)**	-	(4,200)
Affiliated money pool borrowing and receivables/payables, net	**-**	(30,189)	-
(Repayments of) advances from affiliates	**(200,000)**	205,000	346
Capital contributions	**-**	25,000	-
Parent loss tax allocation	**12,415**	15,715	445
Share based compensation	**-**	(2,677)	5,686
Net cash provided by (used in) financing activities	**106,355**	166,189	(8,783)
Net (decrease) increase in cash and cash equivalents	**(10,938)**	11,878	12,459
Cash and cash equivalents, beginning of year	**26,550**	14,672	2,213
Cash and cash equivalents, end of year	**$ 15,612**	$ 26,550	$ 14,672
Supplemental disclosures:			
Interest paid	$ (88,018)	$ (84,503)	$ (91,047)
Income taxes (paid) refunded	(5,376)	15,099	(99,349)
Significant non-cash items:			
Capital-related accruals included in accounts payable	27,753	30,236	11,396
Share based compensation	180	(2,677)	5,686

The accompanying notes are an integral part of these financial statements.

NIAGARA MOHAWK POWER CORPORATION
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2015	2014
		(Restated)
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 15,612**	$ 26,550
Restricted cash and special deposits	**14,316**	15,842
Accounts receivable	**656,707**	732,812
Allowance for doubtful accounts	**(133,428)**	(120,723)
Accounts receivable from affiliates	**19,170**	12,647
Intercompany money pool	**278,048**	131,670
Unbilled revenues	**114,404**	134,449
Inventory	**60,249**	48,116
Regulatory assets	**76,726**	89,556
Derivative contracts	**22,808**	38,277
Current portion of deferred income tax assets, net	**165,036**	92,939
Prepaid taxes	**34,955**	15,367
Other	**31,983**	52,855
Total current assets	**1,356,586**	1,270,357
Equity investments	**2,562**	2,718
Property, plant and equipment, net	**7,886,060**	7,466,113
Other non-current assets:		
Regulatory assets	**1,430,354**	1,104,975
Goodwill	**1,289,132**	1,289,132
Derivative contracts	**8,184**	7,762
Postretirement benefits asset	**211,565**	310,382
Other	**79,716**	74,569
Total other non-current assets	**3,018,951**	2,786,820
Total assets	**$ 12,264,159**	$ 11,526,008

The accompanying notes are an integral part of these financial statements.

NIAGARA MOHAWK POWER CORPORATION
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2015	2014
		(Restated)
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 194,326**	$ 247,842
Accounts payable to affiliates	**7,898**	76,834
Advances from affiliates	**25,000**	225,000
Current portion of long-term debt	**-**	500,000
Taxes accrued	**20,358**	20,370
Customer deposits	**32,214**	30,032
Interest accrued	**33,846**	27,887
Regulatory liabilities	**204,359**	180,902
Derivative contracts	**56,222**	6,734
Other	**123,016**	89,227
Total current liabilities	**697,239**	1,404,828
Other non-current liabilities:		
Regulatory liabilities	**867,883**	829,334
Asset retirement obligations	**10,929**	10,380
Deferred income tax liabilities, net	**1,941,721**	1,765,998
Postretirement benefits	**740,555**	506,034
Environmental remediation costs	**415,234**	432,923
Derivative contracts	**36,714**	8,254
Other	**325,279**	328,112
Total other non-current liabilities	**4,338,315**	3,881,035
Commitments and contingencies (Note 13)		
Capitalization:		
Shareholders' equity	**4,374,149**	4,185,782
Long-term debt	**2,854,456**	2,054,363
Total capitalization	**7,228,605**	6,240,145
Total liabilities and capitalization	**$ 12,264,159**	$ 11,526,008

The accompanying notes are an integral part of these financial statements.

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF CAPITALIZATION
(in thousands of dollars)

			March 31,	
			2015	2014
				(Restated)
Total shareholders' equity			**$ 4,374,149**	$ 4,185,782
Long-term debt:	Interest Rate	Maturity Date		
Unsecured notes:				
Senior Note	3.55%	October 1, 2014	**-**	500,000
Senior Note	4.88%	August 15, 2019	**750,000**	750,000
Senior Note	2.72%	November 28, 2022	**300,000**	300,000
Senior Note	3.51%	October 1, 2024	**500,000**	-
Senior Note	4.28%	October 1, 2034	**400,000**	-
Senior Note	4.12%	November 28, 2042	**400,000**	400,000
			2,350,000	1,950,000
State Authority Financing - tax exempt				
NYSERDA tax exempt	5.15%	November 1, 2025	**75,000**	75,000
NYSERDA tax exempt	Variable	October 1, 2013 - July 1, 2029	**429,465**	529,465
			504,465	604,465
Unamortized debt discounts			**(9)**	(102)
Total debt			**2,854,456**	2,554,363
Current portion of long-term debt			**-**	500,000
Long-term debt			**2,854,456**	2,054,363
Total capitalization			**$ 7,228,605**	$ 6,240,145

The accompanying notes are an integral part of these financial statements.

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands of dollars)

	Common Stock	Cumulative Preferred Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss): Unrealized Gain (Loss) on Available-for-sale Securities	Pension and Other Postretirement Benefits	Total Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance as of March 31, 2012 - restated	**$ 187,365**	**$ 28,985**	**$ 2,954,692**	**$ 350**	**$ (1,096)**	**$ (746)**	**$ 762,241**	**$ 3,932,537**
Net income	-	-	-	-	-	-	184,617	184,617
Other comprehensive income (loss)								
Unrealized gains on securities, net of $789 tax expense	-	-	-	1,183	-	1,183	-	1,183
Change in pension and other postretirement obligations, net of $449 tax benefit	-	-	-	-	(674)	(674)	-	(674)
Total comprehensive income								185,126
Parent loss tax allocation	-	-	445	-	-	-	-	445
Share based compensation	-	-	5,686	-	-	-	-	5,686
Common stock dividends to Parent	-	-	-	-	-	-	(210,000)	(210,000)
Preferred stock dividends	-	-	-	-	-	-	(1,060)	(1,060)
Balance as of March 31, 2013 - restated	**$ 187,365**	**$ 28,985**	**$ 2,960,823**	**$ 1,533**	**$ (1,770)**	**$ (237)**	**$ 735,798**	**$ 3,912,734**
Net income	-	-	-	-		-	234,253	234,253
Other comprehensive income (loss)								
Unrealized gains on securities, net of $429 tax expense	-	-	-	715	-	715	-	715
Change in pension and other postretirement obligations, net of $661 tax expense	-	-	-	-	1,102	1,102	-	1,102
Total comprehensive income								236,070
Capital contributions	-	-	25,000	-	-	-	-	25,000
Parent loss tax allocation	-	-	15,715	-	-	-	-	15,715
Share based compensation	-	-	(2,677)	-	-	-	-	(2,677)
Preferred stock dividends	-	-	-	-	-	-	(1,060)	(1,060)
Balance as of March 31, 2014 - restated	**$ 187,365**	**$ 28,985**	**$ 2,998,861**	**$ 2,248**	**$ (668)**	**$ 1,580**	**$ 968,991**	**$ 4,185,782**
Net income	-	-	-	-		-	176,569	176,569
Other comprehensive income (loss)								
Unrealized gains on securities, net of $267 tax expense	-	-	-	407	-	407	-	407
Change in pension and other postretirement obligations, net of $94 tax benefit	-	-	-	-	(144)	(144)	-	(144)
Total comprehensive income								176,832
Parent loss tax allocation	-	-	12,415	-	-	-	-	12,415
Share based compensation	-	-	180	-	-	-	-	180
Preferred stock dividends	-	-	-	-	-	-	(1,060)	(1,060)
Balance as of March 31, 2015	**$ 187,365**	**$ 28,985**	**$ 3,011,456**	**$ 2,655**	**$ (812)**	**$ 1,843**	**$ 1,144,500**	**$ 4,374,149**

The Company had 187,364,863 shares of common stock authorized, issued and outstanding, with a par value of $1 per share and 289,848 shares of cumulative preferred stock authorized, issued and outstanding, with a par value of $100 per share at March 31, 2015 and 2014.

NIAGARA MOHAWK POWER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Niagara Mohawk Power Corporation ("the Company"), a New York Corporation, is engaged principally in the regulated energy delivery business in New York State. The Company provides electric service to approximately 1.6 million customers in the areas of eastern, central, northern, and western New York and sells, distributes, and transports natural gas to approximately 0.6 million customers in the areas of central, northern, and eastern New York.

The Company is a wholly-owned subsidiary of Niagara Mohawk Holdings, Inc., which is a wholly-owned subsidiary of National Grid USA ("NGUSA" or "Parent"), a public utility holding company with regulated subsidiaries engaged in the generation of electricity and the transmission, distribution, and sale of both natural gas and electricity. NGUSA is a direct wholly-owned subsidiary of National Grid North America Inc. ("NGNA") and an indirect wholly-owned subsidiary of National Grid plc, a public limited company incorporated under the laws of England and Wales.

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), including the accounting principles for rate-regulated entities. The financial statements reflect the ratemaking practices of the applicable regulatory authorities.

The Company has evaluated subsequent events and transactions through July 2, 2015, the date of issuance of these financial statements, and concluded that there were no events or transactions that require adjustment to, or disclosure in, the financial statements as of and for the year ended March 31, 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

In preparing financial statements that conform to U.S. GAAP, the Company must make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and the disclosure of contingent assets and liabilities included in the financial statements. Actual results could differ from those estimates.

Regulatory Accounting

The Federal Energy Regulatory Commission ("FERC") and the New York Public Service Commission ("NYPSC") regulate the rates the Company charges its customers. In certain cases, the rate actions of the NYPSC can result in accounting that differs from non-regulated companies. In these cases, the Company defers costs (as regulatory assets) or recognizes obligations (as regulatory liabilities) if it is probable that such amounts will be recovered from, or refunded to, customers through future rates. Regulatory assets and liabilities are amortized to the statements of income consistent with the treatment of the related costs in the ratemaking process.

Revenue Recognition

Revenues are recognized for energy service provided on a monthly billing cycle basis. The Company records unbilled revenues for the estimated amount of services rendered from the time meters were last read to the end of the accounting period.

As approved by the NYPSC, the Company is allowed to pass through commodity-related costs to customers and also bills for approved rate adjustment mechanisms. In addition, the Company has a revenue decoupling mechanism which allows for annual adjustments to the Company's delivery rates as a result of the reconciliation between allowed revenue and billed revenue. Any difference between the allowed revenue and the billed revenue is recorded as a regulatory asset or regulatory liability.

Other Taxes

The Company collects taxes and fees from customers such as sales taxes, other taxes, surcharges, and fees that are levied by state or local governments on the sale or distribution of gas and electricity. The Company accounts for taxes that are imposed on customers (such as sales taxes) on a net basis (excluded from revenues), while taxes imposed on the Company, such as excise taxes, are recognized on a gross basis. Excise taxes collected and paid for the years ended March 31, 2015, 2014, and 2013 were $38.6 million, $41.7 million, and $39.1 million, respectively.

The state of New York imposes on corporations a franchise tax that is computed as the higher of a tax based on income or a tax based on capital. To the extent the Company's state tax based on capital is in excess of the state tax based on income, the Company reports such excess in other taxes and taxes accrued in the accompanying financial statements.

The Company's policy is to accrue for property taxes on a calendar year basis, taking into account the assessment period. The Company had prepaid property taxes of $15.7 million and $15.4 million at March 31, 2015 and 2014, respectively.

Income Taxes

Federal and state income taxes have been computed utilizing the asset and liability approach that requires the recognition of deferred tax assets and liabilities for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. Deferred income taxes also reflect the tax effect of net operating losses, capital losses and general business credit carryforwards.

The effects of tax positions are recognized in the financial statements when it is more likely than not that the position taken, or expected to be taken, in a tax return will be sustained upon examination by taxing authorities based on the technical merits of the position. The financial effect of changes in tax laws or rates is accounted for in the period of enactment. Deferred investment tax credits are amortized over the useful life of the underlying property.

NGNA files consolidated federal tax returns including all of the activities of its subsidiaries. Each subsidiary company determines its current and deferred taxes based on the separate return method. The Company settles its current tax liability or benefit each year with NGNA pursuant to a tax sharing arrangement between NGNA and its subsidiaries. Tax benefits attributable to the tax attributes of other group companies and allocated by NGNA are treated as capital contributions.

Cash and Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at cost which approximates fair value.

Restricted Cash and Special Deposits

Restricted cash primarily consists of deposits held by the New York Independent System Operator ("NYISO"). Special deposits primarily consist of health care claims deposits. The Company had restricted cash of $12.1 million and zero and special deposits of $2.2 million and $15.8 million at March 31, 2015 and 2014, respectively.

Accounts Receivable and Allowance for Doubtful Accounts

The Company recognizes an allowance for doubtful accounts to record accounts receivable at estimated net realizable value. The allowance is determined based on a variety of factors including, for each type of receivable, applying an estimated reserve percentage to each aging category, taking into account historical collection and write-off experience and management's assessment of collectability from individual customers as appropriate. The collectability of receivables is continuously assessed and, if circumstances change, the allowance is adjusted accordingly. Receivable balances are written off against the allowance for doubtful accounts when the accounts are disconnected and/or terminated and the balances are deemed to be uncollectible.

Inventory

Inventory is comprised of materials and supplies as well as gas in storage. Materials and supplies are stated at the lower of weighted average cost or market and are expensed or capitalized as used. The Company's policy is to write-off obsolete inventory; there were no material write-offs of obsolete inventory for the years ended March 31, 2015, 2014, or 2013.

Gas in storage is stated at weighted average cost and the related cost is recognized when delivered to customers. Existing rate orders allow the Company to pass directly through to customers the cost of gas purchased, along with any applicable authorized delivery surcharge adjustments. Gas costs passed through to customers are subject to regulatory approvals and are reported periodically to the NYPSC.

The Company had materials and supplies of $43.2 million and $40.4 million and gas in storage of $17.1 million and $7.7 million at March 31, 2015 and 2014, respectively.

Derivative Contracts

The Company uses derivative contracts to manage commodity price risk. All derivative contracts are recorded in the accompanying balance sheets at their fair value. All commodity costs, including the impact of derivative contracts, are passed on to customers through the Company's commodity rate adjustment mechanisms. Therefore, gains or losses on the settlement of these contracts are initially deferred and then refunded to, or collected from, customers consistent with regulatory requirements.

Certain non-trading contracts for the physical purchase of natural gas qualify for the normal purchase normal sale exception and are accounted for upon settlement. If the Company were to determine that a contract for which it elected the normal purchase normal sale exception, no longer qualifies, the Company would recognize the fair value of the contract in accordance with the regulatory accounting described above.

The Company's accounting policy is to not offset fair value amounts recognized for derivative contracts and related cash collateral receivable or payable with the same counterparty under a master netting agreement, and to record and present the fair value of the derivative contract on a gross basis, with related cash collateral recorded within restricted cash and special deposits in the accompanying balance sheets. There was $12.1 million related cash collateral as of March 31, 2015 and no related cash collateral at March 31, 2014.

Power Purchase Agreements

The Company enters into power purchase agreements to procure commodity to serve its electric service customers. The Company evaluates whether such agreements are leases, derivatives, or executory contracts. Power purchase agreements that do not qualify as leases or derivatives are accounted for as executory contracts and are, therefore, recognized as the electricity is purchased. In making its determination of the accounting for power purchase agreements, the Company considers many factors, including: the source of the electricity; the level of output from any specified facility that the Company is taking under the contract; the involvement, if any, that the Company has in operating the specified facility; and the pricing mechanisms in the contract.

Fair Value Measurements

The Company measures derivatives and available-for-sale securities at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following is the fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that a company has the ability to access as of the reporting date;
- Level 2: inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data; and
- Level 3: unobservable inputs, such as internally-developed forward curves and pricing models for the asset or liability due to little or no market activity for the asset or liability with low correlation to observable market inputs.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Company uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

Property, Plant and Equipment

Property, plant and equipment is stated at original cost. The cost of repairs and maintenance is charged to expense and the cost of renewals and betterments that extend the useful life of property, plant and equipment is capitalized. The capitalized cost of additions to property, plant and equipment includes costs such as direct material, labor and benefits, and an allowance for funds used during construction ("AFUDC").

Depreciation is computed over the estimated useful life of the asset using the composite straight-line method. Depreciation studies are conducted periodically to update the composite rates and are approved by the NYPSC. The average composite rates and average service lives for the years ended March 31, 2015, 2014, and 2013 are as follows:

	Composite Rates			**Average Service Lives**		
	Years Ended March 31,			**Years Ended March 31,**		
	2015	2014	2013	**2015**	2014	2013
Electric	**2.2%**	2.2%	2.1%	**58 years**	58 years	58 years
Gas	**2.1%**	2.1%	2.5%	**49 years**	49 years	49 years
Common	**4.7%**	4.5%	4.5%	**38 years**	38 years	38 years

Depreciation expense includes a component for estimated future cost of removal, which is recovered through rates charged to customers. Any difference in cumulative costs recovered and costs incurred is recognized as a regulatory liability. When property, plant and equipment is retired, the original cost, less salvage, is charged to accumulated depreciation, and the related cost of removal is removed from the associated regulatory liability. The Company had cumulative costs recovered in excess of costs incurred of $370.2 million and $380 million at March 31, 2015 and 2014, respectively.

Allowance for Funds Used During Construction

In accordance with applicable accounting guidance, the Company records AFUDC, which represents the debt and equity costs of financing the construction of new property, plant and equipment. AFUDC equity is reported in the statements of income as non-cash income in other income, net, and AFUDC debt is reported as a non-cash offset to other interest, including affiliate interest. After construction is completed, the Company is permitted to recover these costs through their inclusion in rate base and corresponding depreciation expense. The Company recorded AFUDC related to equity of $13.3 million, $10 million, and $6.9 million and AFUDC related to debt of $4.7 million, $4.7 million and $3.7 million for the years ended March 31, 2015, 2014, and 2013, respectively. The average AFUDC rates for the years ended March 31, 2015, 2014, and 2013 were 6.5%, 6.4%, and 6.1%, respectively.

Goodwill

The Company tests goodwill for impairment annually on January 1, and when events occur or circumstances change that would more likely than not reduce the fair value of the Company below its carrying amount. Goodwill is tested for impairment using a two-step approach. The first step compares the estimated fair value of the Company with its carrying value, including goodwill. If the estimated fair value exceeds the carrying value, then goodwill is considered not impaired. If the carrying value exceeds the estimated fair value, then a second step is performed to determine the implied fair value of goodwill. If the carrying value of goodwill exceeds its implied fair value, then an impairment charge equal to the difference is recorded.

The fair value of the Company was calculated in the annual goodwill impairment test for the year ended March 31, 2015 utilizing both income and market approaches.

- To estimate fair value utilizing the income approach, the Company used a discounted cash flow methodology incorporating its most recent business plan forecasts together with a projected terminal year calculation. Key assumptions used in the income approach were: (a) expected cash flows for the period from April 1, 2015 to March 31, 2020; (b) a discount rate of 5.2%, which was based on the Company's best estimate of its after-tax weighted-average cost of capital; and (c) a terminal growth rate of 2.25%, based on the Company's expected long-term average growth rate in line with estimated long-term U.S. economic inflation.

- To estimate fair value utilizing the market approach, the Company followed a market comparable methodology. Specifically, the Company applied a valuation multiple of earnings before interest, taxes, depreciation and amortization ("EBITDA"), derived from data of publicly-traded benchmark companies, to business operating data. Benchmark companies were selected based on comparability of the underlying business and economics. Key assumptions used in the market approach included the selection of appropriate benchmark companies and the selection of an EBITDA multiple of 11, which the Company believes is appropriate based on comparison of its business with the benchmark companies.

The Company determined the fair value of the business using 50% weighting for each valuation methodology, as it believes that each methodology provides equally valuable information. Based on the resulting fair value from the annual analyses, the Company determined that no adjustment of the goodwill carrying value was required at March 31, 2015 or 2014.

Prior to 2015, the Company utilized an annual impairment assessment date of January 31. Management has determined that the use of January 1 as its annual impairment assessment date is preferable to January 31 because it facilitates a more timely evaluation in advance of the Company's fiscal year end of March 31. The movement of the date has not resulted in a substantive change in the timing of recording any potential impairment.

Available-For-Sale Securities

The Company holds available-for-sale securities that include equities, municipal bonds and corporate bonds. These investments are recorded at fair value and are included in other non-current assets in the accompanying balance sheets. Changes in the fair value of these assets are recorded within other comprehensive income.

Asset Retirement Obligations

Asset retirement obligations are recognized for legal obligations associated with the retirement of property, plant and equipment, primarily associated with the Company's distribution facilities. Asset retirement obligations are recorded at fair value in the period in which the obligation is incurred, if the fair value can be reasonably estimated. In the period in which new asset retirement obligations, or changes to the timing or amount of existing retirement obligations are recorded, the associated asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset. In each subsequent period the asset retirement obligation is accreted to its present value.

The following table represents the changes in the Company's asset retirement obligations:

	Years Ended March 31,	
	2015	2014
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 10,380**	$ 10,329
Accretion expense	**518**	507
Liabilities settled	**-**	(456)
Liabilities incurred in the current year	**31**	-
Balance as of the end of the year	**$ 10,929**	$ 10,380

Accretion expense is deferred as part of the Company's asset retirement obligation regulatory asset as management believes it is probable that such amounts will be collected in future rates.

Employee Benefits

The Company has defined benefit pension and postretirement benefit ("PBOP") plans for its employees. The Company recognizes all pension and PBOP plans' funded status in the accompanying balance sheets as a net liability or asset with an offsetting adjustment to accumulated other comprehensive income ("AOCI") in shareholders' equity. The cost of providing these plans is recovered through rates; therefore, the net funded status is offset by a regulatory asset or liability. The Company measures and records its pension and PBOP funded status at the year-end date. Pension and PBOP plan assets are measured at fair value, using the year-end market value of those assets.

Supplemental Executive Retirement Plans

The Company has corporate assets included in other non-current assets in the accompanying balance sheets representing funds designated for Supplemental Executive Retirement Plans. These funds are invested in corporate owned life insurance policies and available-for-sale securities primarily consisting of equity investments and investments in municipal and corporate bonds. The corporate owned life insurance investments are measured at cash surrender value with increases and decreases in the value of these assets recorded in the accompanying statements of income.

New and Recent Accounting Guidance

Accounting Guidance Adopted in Fiscal Year 2015

Reclassifications From Accumulated Other Comprehensive Income

In February 2013, the FASB issued ASU 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income," to improve the reporting of reclassifications out of AOCI. The amendments require an entity to provide information either on the face of the financial statements or in a single footnote on significant amounts reclassified out of AOCI and the related income statement line items to the extent an amount is reclassified in its entirety to net income. For significant items not reclassified to net income in their entirety, an entity is required to cross-reference to other disclosures that provide additional information. For non-public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2013. Early adoption is permitted. The Company adopted this guidance effective April 1, 2014 with no impact on its financial position, results of operations or cash flows.

Accounting Guidance Not Yet Adopted

Presentation of Financial Statements - Going Concern, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern

In August 2014, the FASB issued amendments on reporting about an entity's ability to continue as a going concern in ASU No. 2014-15, "Presentation of Financial Statements – Going Concern (Subtopic 205 - 40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." The amendments provide guidance about management's responsibility to evaluate whether there is substantial doubt surrounding an entity's ability to continue as a going concern. If management concludes that substantial doubt exists, the amendments also require additional disclosures relating to management's evaluation and conclusion. The amendments are effective for the annual reporting period ending after December 15, 2016 and interim periods thereafter. The application of this guidance is not expected to have a material impact on the Company's financial position, results of operations and cash flows.

Revenue Recognition

In May 2014, the FASB and the International Accounting Standards Board jointly issued a new revenue recognition standard ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." The objective of the new guidance is to provide a single comprehensive revenue recognition model for all contracts with customers to improve comparability. The standard contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services in an amount that reflects the consideration the entity expects to receive. The new guidance must be adopted using either a full retrospective approach or a modified retrospective approach. For non-public entities, the new guidance is effective for periods beginning after December 15, 2018, with early adoption permitted for periods beginning after December 15, 2017. The Company is currently evaluating the impact of the new guidance on its financial position, results of operations and cash flows.

Financial Statement Restatement

During 2015, management determined that certain accounting transactions were not properly recorded in the Company's previously issued financial statements. The Company corrected the accounting by restating the prior period financial statements, the impacts of which are described below.

During its review of the Company's accounting for its RDM, management determined it had incorrectly applied its methodology related to the unbilled component of revenue. A cumulative adjustment of $21.3 million (net of income taxes) was recorded in the financial statements for the year ended March 31, 2014, which was recorded as a decrease to net income within operating revenues for the year ended March 31, 2014.

Additionally, adjustments were made to correct the timing of recognition of revenue and regulatory assets related to the Company's Electricity Supply Reconciliation Mechanism. A cumulative adjustment of $7.7 million (net of income taxes) was recorded in the financial statements for the year ended March 31, 2014, of which $2.2 million was recorded as a decrease to opening retained earnings (as of March 31, 2012) and $1.2 million and $8.9 million were recorded as an increase to net income within operating revenues for the years ended March 31, 2014 and 2013, respectively.

Further, management determined it had not recognized a regulatory liability in relation to the Company's Net Utility Plant Tracker. A cumulative adjustment of $8.7 million (net of income taxes) was recorded in the financial statements for the year ended March 31, 2014, which was recorded as a decrease to net income within operating revenues for the year ended March 31, 2014.

In addition, the Company has corrected various account balances that were improperly recorded. A cumulative adjustment of $0.2 million (net of income taxes) was recorded in the financial statements for the year ended March 31, 2014, of which a $0.1 million increase and a $0.2 million decrease were recorded to net income for the years ended March 31, 2014 and 2013, respectively.

The following table shows the amounts previously reported as restated:

	As Previously Reported [1]	Adjustments	As Restated
		(in thousands of dollars)	
Consolidated Statement of Income	**March 2014**		**March 2014**
Operating revenues	$ 3,571,821	$ (45,289)	$ 3,526,532
Operating income	489,421	(44,096)	445,325
Total other deductions, net	(81,376)	(3,413)	(84,789)
Income before income taxes	408,045	(47,509)	360,536
Income tax expense	145,104	(18,821)	126,283
Net income	262,941	(28,688)	234,253
Consolidated Statement of Income	**March 2013**		**March 2013**
Operating revenues	$ 3,362,700	$ 14,386	$ 3,377,086
Operating income	360,888	14,386	375,274
Other deductions, net	(88,694)	(381)	(89,075)
Income before income taxes	272,194	14,005	286,199
Income tax expense	96,034	5,548	101,582
Net income	176,160	8,457	184,617
Consolidated Statement of Cash Flows	**March 2014**		**March 2014**
Net cash provided by operating activities	$ 466,336	$ 1,279	$ 467,615
Net cash used in investing activities	(620,647)	(1,279)	(621,926)
Consolidated Statement of Cash Flows	**March 2013**		**March 2013**
Net cash provided by operating activities	$ 500,647	$ (112)	$ 500,535
Net cash used in investing activities	(479,405)	112	(479,293)

	As Previously Reported [1]	Adjustments	As Restated
		(in thousands of dollars)	
Consolidated Balance Sheet	**March 2014**		**March 2014**
Total current assets	$ 1,267,659	$ 2,697	$ 1,270,356
Property, plant and equipment, net	7,469,908	(3,795)	7,466,113
Total current liabilities	1,393,277	11,550	1,404,827
Total other non-current liabilities	3,871,254	9,781	3,881,035
Retained Earnings			
March 31, 2014	991,420	(22,429)	968,991
March 31, 2013	729,539	6,259	735,798
March 31, 2012	764,439	(2,198)	762,241

[1] During 2015, the Company changed its accounting policy for classification of regulatory accounts. The change in policy resulted in a reclassification of balances reported at March 31, 2014.

3. REGULATORY ASSETS AND LIABILITIES

The Company records regulatory assets and liabilities that result from the ratemaking process. The following table presents the regulatory assets and regulatory liabilities recorded in the accompanying balance sheets.

	March 31, 2015	March 31, 2014
	(in thousands of dollars)	
Regulatory assets		
Current:		
Amortization of deferral recoveries	**$ -**	$ 15,819
Derivative contracts	**61,944**	-
Gas costs adjustment	**9,190**	45,499
Rate adjustment mechanisms	**208**	26,207
Revenue decoupling mechanism	**5,147**	-
Other	**237**	2,031
Total	**76,726**	89,556
Non-current:		
Dunkirk settlement deferral	**60,351**	65,794
Environmental response costs	**415,234**	432,923
Postretirement benefits	**729,771**	425,648
Regulatory deferred tax asset	**78,790**	67,839
Storm costs	**96,238**	73,332
Other	**49,970**	39,439
Total	**1,430,354**	1,104,975
Regulatory liabilities		
Current:		
Derivative contracts	**-**	31,052
Energy efficiency	**68,305**	61,582
Gas costs adjustment	**3,169**	18,786
Rate adjustment mechanisms	**100,154**	10,294
Revenue decoupling mechanism	**4,082**	22,752
Temporary state assessment	**28,649**	-
Other	**-**	36,436
Total	**204,359**	180,902
Non-current:		
Carrying charges	**61,039**	56,901
Cost of removal	**370,163**	380,001
Economic development fund	**56,198**	37,502
Excess storm reserve	**87,778**	58,778
Postretirement benefits	**97,562**	104,915
Temporary state assessment	**-**	59,537
Other	**195,143**	131,700
Total	**867,883**	829,334
Net regulatory assets	**$ 434,838**	$ 184,295

Amortization of deferral recoveries: In March 2013, the Company implemented a revised Electricity Supply Reconciliation Mechanism ("ESRM") methodology to better align the revenue with expense. This change resulted in unintentional financial impacts that the Company would not be able to recover. Therefore, the Company and NYPSC Staff agreed that the best way to allow the Company to recover the unreconciled dollars would be a return to the original ESRM methodology that was in place prior to March 2013. The NYPSC allowed the Company to recover the unreconciled costs of $31.6 million over a twelve-month period beginning November 2013 applied to ESRM rates.

Cost of removal: Represents cumulative amounts collected, but not yet spent, to dispose of property, plant and equipment. This liability is discharged as removal costs are incurred.

Derivative contracts (assets and liabilities): The Company evaluates open derivative contracts for regulatory deferral by determining if they are probable of recovery from, or refund to, customers through future rates. Derivative contracts that qualify for regulatory deferral are recorded at fair value, with changes in fair value recorded as regulatory assets or regulatory liabilities in the period in which the change occurs.

Dunkirk settlement deferral: Represents the Company's deferral costs of procuring Reliability Support Services ("RSS") from Dunkirk Power LLC and related accrued carrying charges to ensure that local reliability needs are met.

Economic development fund: Represents actual expenditures and economic development discounts below the rate allowance, deferred for future return.

Energy efficiency ("EE"): Represents the difference between revenue billed to customers through its EE Charge and the costs of the Company's EE programs as approved by the NYPSC.

Environmental response costs: The regulatory asset represents deferred costs associated with the Company's share of the estimated costs to investigate and perform certain remediation activities at sites with which it may be associated. The Company's rate plans provide for specific rate allowances for these costs at a level of $42 million per year, with variances deferred for future recovery from, or return to, customers. The Company believes future costs, beyond the expiration of current rate plans, will continue to be recovered through rates.

Excess storm reserve: Represents the cumulative storm reserve allowance / funding for major storm incremental costs. The Joint Proposal (NMPC rate proceeding Case 12-E-0201) establishes an annual allowance for major storm recovery of $29 million in each of the three years. The Company will defer the difference between the base rate allowance and actual major storm incremental costs for future refund to, or recovery from, customers.

Gas costs adjustment: The Company is subject to rate adjustment mechanisms for commodity costs, whereby an asset or liability is recognized resulting from differences between actual revenues and the underlying cost being recovered or differences between actual revenues and targeted amounts as approved by the NYPSC. These amounts will be refunded to, or recovered from, customers over the next year.

Postretirement benefits: The regulatory asset represents the Company's deferral related to the underfunded status of its pension and PBOP plans. The amount in regulatory liabilities primarily represents the excess of amounts received in rates over actual costs of the Company's pension and PBOP plans to be refunded in future periods. These balances accrue carrying charges as calculated in accordance with the Company's pension and PBOP reserve mechanism.

Rate adjustment mechanisms: The Company is subject to a number of rate adjustment mechanisms whereby an asset or liability is recognized resulting from differences between actual revenues and the underlying cost being recovered, or differences between actual revenues and targeted amounts as approved by the NYPSC. These amounts will be refunded to, or recovered from, customers.

Regulatory deferred tax asset: Represents unrecovered federal and state deferred taxes of the Company primarily as a result of regulatory flow through accounting treatment and tax rate changes. The income tax benefits or charges for certain plant related timing differences, such as equity AFUDC, are immediately flowed through to, or collected from, customers. The amortization of the related regulatory deferred tax asset, for these items, follows the book life of the underlying plant asset. The Company also has a recovery of historic unfunded deferred tax balances that are currently amortizing into rates at a stated annual revenue requirement under the current rate plan.

Revenue decoupling mechanism: As approved by the NYPSC, the Company has a RDM which allows for annual adjustment to the Company's delivery rates as a result of the reconciliation between allowed revenue per customer and actual revenue per customer. Any difference between the allowed revenue per customer and the actual revenue per customer is recorded as a regulatory asset or regulatory liability.

Storm costs: The Company's rate plan provides for a rate allowance of $29 million regulatory liability annually for incremental major storm costs. The Company has recorded $22.9 million storm cost regulatory assets arising from qualified storm events for recovery during the year.

Temporary state assessment: In June 2009, the Company made a gas and electric compliance filing with the NYPSC regarding the implementation of the Temporary State Energy & Utility Conservation Assessment ("Temporary State Assessment"). The NYPSC authorized recovery of the costs required for payment of the Temporary State Assessment, including carrying charges, subject to reconciliation over the five years of July 1, 2009 through June 30, 2014. On September 13, 2013 and August 7, 2013, the Company submitted a compliance filing (updated from June 14, 2013) proposing to maintain the currently effective surcharge. On June 18, 2014, a final order implementing a revised Temporary State Assessment resulted in a $2.7 million and $3.9 million credit to electric and gas customers respectively for rates effective July 1, 2014 through June 30, 2015.

The Company records carrying charges on all regulatory balances (with the exception of amortization of deferral recoveries, derivative contracts, cost of removal, and regulatory deferred tax balances), for which cash expenditures have been made and are subject to recovery, or for which cash has been collected and is subject to refund. Carrying charges are not recorded on items for which expenditures have not yet been made.

4. RATE MATTERS

March 2013 Electric and Gas Filing

In March 2013, the NYPSC issued a final order regarding the Company's electric and gas base rate filing made on April 27, 2012. The term of the new rate plan is from April 1, 2013 through March 31, 2016 and provides for an electric revenue requirement of $1,338.3 million in the first year, $1,395.9 million in the second year, and $1,432.5 million in the third year. It also provides for a gas revenue requirement of $307.4 million in the first year, $314.7 million in the second year, and $322 million in the third year.

Transmission Return on Equity ("ROE") Complaint

On September 11, 2012, the New York Association of Public Power ("NYAPP") filed a complaint against the Company, seeking to have the base ROE for transmission service of 11.5%, which includes a NYISO participation incentive adder, lowered to 9.49%. Similarly, on November 2, 2012 the Municipal Electric Utilities Association ("MEUA") filed a complaint to lower the Company's ROE to 9.25% including the NYISO participation adder. The MEUA complaint also challenged certain aspects of the Company's transmission formula rate. On February 6, 2014, the NYAPP filed a further complaint to reduce the ROE used in calculating rates for transmission service under the NYISO Open Access Transmission Tariff ("OATT") to 9.36%, inclusive of the 50 basis point adder for participation in the NYISO, with a corresponding overall weighted cost of capital of 6.60%. On February 24, 2015, the parties filed a Settlement Agreement which reduces the ROE used in calculating rates for transmission service under the NYISO OATT to 10.3%, inclusive of incentive adders, from November 2, 2012 until the date of a FERC order accepting the Settlement Agreement, and prospectively thereon. The Settlement Agreement also provides for a one-time refund of $180,000 plus interest on that amount calculated at the FERC rate pursuant to 18 C.F.R. §35.19a(a)(2)(iii) from November 2, 2012 until the date the refund is provided, along with a one-time refund of $200,000 without interest for the non-ROE transmission formula rate issues raised in the MEUA complaint. Any change in the ROE would not have an impact on net income as the retail rate plan fully reconciles any increase or decrease in wholesale transmission revenue under the FERC Transmission Service Charge rate through a Transmission Revenue Adjustment Clause mechanism. On May 13, 2015, the FERC issued a letter order approving the Company's Transmission ROE settlement without any modification.

Wholesale Transmission Service Charge

On December 6, 2013, the Company submitted a filing for FERC approval of revisions to its Wholesale Transmission Service Charge ("TSC Rate") under the NYSIO OATT to recover its RSS costs under two agreements with NRG to support the reliability of the Company's transmission system while transmission reinforcements are constructed. On February 4, 2014, the FERC allowed the RSS charges to become effective in TSC Rates as of July 1, 2013, subject to refund and further consideration of the matter by the FERC. On March 19, 2015, the FERC issued two orders relating to the Company's December 6, 2013 filing of proposed tariff revisions to the TSC Rate. In the first order, the FERC set for hearing and settlement judge procedures the justness and reasonableness of the Company's proposed Wholesale TSC formula rate revisions and the Dunkirk RSS charges. In the second order, the FERC rejected a request for rehearing filed by the MEUA regarding the FERC's decision to accept the December 6, 2013 amendment for filing retroactive to July 1, 2013. The FERC held the hearing on the first order in abeyance pending the outcome of settlement proceedings before a settlement judge.

Dunkirk RSS Agreement Extension

On May 18, 2015, the NYPSC approved a seven-month extension of the existing RSS agreement between the Company and Dunkirk. The approval extends the end date of the RSS from May 31, 2015 to December 31, 2015, and provides for recovery of the RSS costs under the surcharge mechanism currently in place. The extension is needed to address reliability issues until the Company's Five Mile Road substation and associated reconductoring projects are in service (estimated at December 31, 2015).

Management Audit

In February 2011, the NYPSC selected Overland Consulting Inc., ("Overland") to perform a management audit of NGUSA's affiliate cost allocations, policies and procedures. The Company disputed certain of Overland's final audit conclusions and the NYPSC ordered that further proceedings be conducted to address what, if any, ratemaking adjustments were necessary. On September 5, 2014, the NYPSC approved a settlement that resolves all outstanding issues relating to the audit and provides for no rate adjustments for the Company.

Gas Management Audit

In February 2013, the NYPSC initiated a comprehensive management and operational audit of NGUSA's New York gas businesses, including the Company, pursuant to the Public Service Law requirement that major electric and gas utilities undergo an audit every five years. The audit commenced in August 2013 and the NYPSC issued an audit findings report in October 2014. The audit findings found that the Company's operations performed well in providing reliable gas service, and strength in operations, network planning, project management, work management, load forecasting, supply procurement and customer systems support. Also included were 31 recommendations for improvement, including: reconstituting the boards of directors of NGUSA and the gas companies in New York to include more objective oversight; establishing stronger reporting authority between the New York jurisdictional president and operational organizations; preparing a true strategic plan for NGUSA's New York operations to serve as a road map for investments, programs and operations to build upon the state energy plan and energy initiatives; developing a five-year, integrated, system-wide plan that includes all gas reliability work, mandated replacements, growth projects and system planning work; enhancing internal service level agreements to promote accountability for performance and costs; and undertaking a full accounting of all costs associated with NGUSA's SAP enterprise wide system. In November 2014, NGUSA's New York gas businesses filed joint audit implementation plans addressing each of the audit recommendations. On May 14, 2015, the NYPSC issued an order accepting without modifications the joint implementation plans and directing NGUSA's New York gas businesses to execute the plans.

Operations Audit

In August 2013, the NYPSC initiated an operational audit to review the accuracy of the customer service, electric reliability, and gas safety data reported by the investor owned utilities operating in New York, including the Company. On December 19, 2013, the NYPSC selected Overland to conduct the audit, which commenced in February 2014. At the time of the issuance of these financial statements, the Company has not received the final audit findings and cannot predict the outcome of this audit.

Operations Staffing Audit

In January 2014, the NYPSC initiated an operational audit to review internal staffing levels and use of contractors for the core utility functions of the investor owned utilities operating in New York, including the Company. On June 26, 2014, the NYPSC selected The Liberty Consulting Group to conduct the audit. At the time of the issuance of these financial statements, the Company cannot predict the outcome of this operational audit.

Recovery of Deferral Costs Relating to Emergency Order

On January 28, 2014, the Company filed a petition requesting a waiver of Rule 46.3.2 of its tariff. Rule 46.3.2 describes the manner in which the Company calculates its supply-related Mass Market Adjustment (“MMA”). The Company proposed the waiver of the rule to mitigate adverse financial impacts anticipated from a significant and unusual increase in electric commodity prices for its mass market customers.

On that same date, the NYPSC issued, on an emergency basis pursuant to the State Administrative Procedure Act §202(6), an Emergency Order granting the Company’s waiver request (the “Emergency Order”). In the Emergency Order, the NYPSC waived the requirements of Rule 46.3.2 and approved deferral treatment of the costs and associated carrying charges related to the one-time credit provided via the waiver. However, the NYPSC denied, pending further review and consideration of public comments, the Company’s request to recover such deferral over a six-month period beginning May 2014.

The NYPSC issued another order on April 25, 2014 permanently approving the Emergency Order and authorizing the Company to collect $33.3 million, plus carrying charges at the customer deposit rate, over a six-month period commencing with the June 2014 billing period. The deferral recovery will be performed in a manner consistent with the method that was used to provide the benefit to the mass market customers, through an adjustment to the MMA as calculated by NYISO load zone.

Petition for Authorization to Defer an Actuarial Experience Pension Settlement Loss for the Year Ending March 31, 2014

On February 28, 2014 and August 13, 2014 the Company filed petitions seeking authorization to defer $14.1 million related to a pension settlement loss incurred during the year ending March 31, 2014.

Commodity Rate Mechanism Changes

On October 23, 2014, the NYPSC approved tariff revisions filed by the Company that modified several components of Rule 46 – Supply Service Charges of the Company’s tariff, NYPSC No. 220-Electricity. The revisions provide the Company with a measure of flexibility to manage significant volatility resulting from the reconciliation of commodity costs, like those experienced in January and March of 2014 due to the unanticipated extreme cold weather, for its residential and small commercial customers (“mass market customers”). The tariff revisions went into effect October 29, 2014 and will allow for more flexibility in the timing of the Company’s reconciliation of revenues and expenses for mass market customers.

5. PROPERTY, PLANT AND EQUIPMENT

The following table summarizes property, plant and equipment at cost along with accumulated depreciation and amortization:

	March 31,	
	2015	2014
	(in thousands of dollars)	
Plant and machinery	**$ 10,157,553**	$ 9,558,727
Land and buildings	**558,383**	545,537
Assets in construction	**343,906**	435,275
Software and other intangibles	**8,141**	6,361
Total property, plant and equipment	**11,067,983**	10,545,900
Accumulated depreciation and amortization	**(3,181,923)**	(3,079,787)
Property, plant and equipment, net	**$ 7,886,060**	$ 7,466,113

6. DERIVATIVE CONTRACTS

The Company utilizes derivative contracts, such as swaps, options and gas purchase contracts, to manage commodity price risk associated with its natural gas and electricity purchases. The Company's risk management strategy is to reduce fluctuations in firm gas and electricity sales prices to its customers.

The Company's financial exposures are monitored and managed as an integral part of the Company's overall financial risk management policy. The Company engages in risk management activities only in commodities and financial markets where it has an exposure, and only in terms and volumes consistent with its core business.

Volumes

Volumes of outstanding commodity derivative contracts measured in dekatherms ("dths") and megawatt hours ("mwhs") are as follows:

	Electric		Gas	
	March 31,		March 31,	
	2015	2014	**2015**	2014
	(in thousands)		*(in thousands)*	
Gas swap contracts (dths)	**-**	-	**4,380**	1,360
Gas option contracts (dths)	**-**	-	**760**	6,250
Gas purchase contracts (dths)	**-**	-	**5,178**	14,758
Electric swap contracts (mwhs)	**10,779**	6,637	**-**	-
Electric option contracts (mwhs)	**154**	154	**-**	-
Total	**10,933**	6,791	**10,318**	22,368

Amounts Recognized in the Accompanying Balance Sheets

	Asset Derivatives			Liability Derivatives	
	March 31,			March 31,	
	2015	2014		**2015**	2014
	(in thousands of dollars)			*(in thousands of dollars)*	
Current assets:			Current liabilities:		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas swap contracts	**$ 3**	$ 525	Gas swap contracts	**$ 3,911**	$ 27
Gas option contracts	**-**	612	Gas option contracts	**65**	175
Gas purchase contracts	**10**	182	Gas purchase contracts	**170**	5,105
Electric swap contracts	**22,795**	36,360	Electric swap contracts	**51,123**	1,417
Electric option contracts	**-**	598	Electric option contracts	**953**	10
	22,808	38,277		**56,222**	6,734
Other non-current assets:			Other non-current liabilities:		
Rate recoverable contracts:			Rate recoverable contracts:		
Electric swap contracts	**8,184**	7,762	Electric swap contracts	**36,714**	8,254
	8,184	7,762		**36,714**	8,254
Total	**$ 30,992**	$ 46,039	Total	**$ 92,936**	$ 14,988

The changes in fair value of the Company's rate recoverable contracts are offset by changes in regulatory assets and liabilities. As a result, the changes in fair value of those contracts had no impact in the accompanying statements of income. The Company had no derivative contracts not subject to rate recovery as of March 31, 2015 and 2014.

Credit and Collateral

The Company is exposed to credit risk related to transactions entered into for commodity price risk management. Credit risk represents the risk of loss due to counterparty non-performance. Credit risk is managed by assessing each counterparty's credit profile and negotiating appropriate levels of collateral and credit support.

The credit policy for commodity transactions is managed and monitored by NGUSA's Executive Energy Risk Management Committee ("EERC"), which is responsible for approving risk management policies and objectives for risk assessment, control and valuation, and the monitoring and reporting of risk exposures. NGUSA's Energy Procurement Risk Management Committee ("EPRMC") is responsible for approving transaction strategies, annual supply plans, and counterparty credit approval, as well as all valuation and control procedures. The EERC is chaired by the Global Tax and Treasury Director and reports to the Finance Committee. The EPRMC is chaired by the Vice President of U.S. Treasury and reports to the EERC.

The EPRMC monitors counterparty credit exposure and appropriate measures are taken to bring such exposures below the limits, including, without limitation, netting agreements, and limitations on the type and tenor of trades. The Company enters into enabling agreements that allow for payment netting with its counterparties, which reduce its exposure to counterparty risk by providing for the offset of amounts payable to the counterparty against amounts receivable from the counterparty. In instances where a counterparty's credit quality has declined, or credit exposure exceeds certain levels, the Company may limit its credit exposure by restricting new transactions with the counterparty, requiring additional collateral or credit support, and negotiating the early termination of certain agreements. Similarly, the Company may be required to post collateral to its counterparties.

The Company's credit exposure for all derivative contracts and applicable payables and receivables, net of collateral and instruments that are subject to master netting agreements, was a liability of $49.8 million and an asset of $28.2 million as of March 31, 2015 and 2014, respectively.

The Company enters into commodity transactions on New York Mercantile Exchange ("NYMEX"). The NYMEX clearing houses act as the counterparty to each trade. Transactions on the NYMEX must adhere to comprehensive collateral and margining requirements. As a result, transactions on the NYMEX are significantly collateralized and have limited counterparty credit risk.

The aggregate fair value of the Company's derivative contracts with credit-risk-related contingent features that are in a liability position at March 31, 2015 and 2014 was $62 million and $9.7 million, respectively. The Company had $12.1 million and zero collateral posted for these instruments at March 31, 2015 and 2014. If the Company's credit rating were to be downgraded by one level, it would be required to post $13.6 million and zero additional collateral to its counterparties at March 31, 2015 and 2014, respectively. If the Company's credit rating were to be downgraded by two levels, it would be required to post $23.6 million and zero additional collateral to its counterparties at March 31, 2015 and 2014, respectively. If the Company's credit rating were to be downgraded by three levels, it would be required to post $58.9 million and $9.9 million additional collateral to its counterparties at March 31, 2015 and 2014, respectively.

Offsetting Information for Derivatives Subject to Master Netting Arrangements

March 31, 2015

Gross Amounts Not Offset in the Balance Sheets

(in thousands of dollars)

	Gross amounts of recognized assets	Gross amounts offset in the Balance Sheets	Net amounts of assets presented in the Balance Sheets	Financial instruments	Cash collateral received	Net amount
ASSETS:	*A*	*B*	*C=A+B*	*Da*	*Db*	*E=C-D*
Derivative contracts						
Gas swap contracts	$ 3	$ -	$ 3	$ -	$ -	$ 3
Gas purchase contracts	10	-	10	-	-	10
Electric swap contracts	30,979	-	30,979	-	-	30,979
Total	$ 30,992	$ -	$ 30,992	$ -	$ -	$ 30,992

	Gross amounts of recognized liabilities	Gross amounts offset in the Balance Sheets	Net amounts of liabilities presented in the Balance Sheets	Financial instruments	Cash collateral paid	Net amount
LIABILITIES:	*A*	*B*	*C=A+B*	*Da*	*Db*	*E=C-D*
Derivative contracts						
Gas swap contracts	$ 3,911	$ -	$ 3,911	$ -	$ -	$ 3,911
Gas option contracts	65	-	65	-	-	65
Gas purchase contracts	170	-	170	-	-	170
Electric swap contracts	87,837	-	87,837	-	12,100	75,737
Electric option contracts	953	-	953	-	-	953
Total	$ 92,936	$ -	$ 92,936	$ -	$ 12,100	$ 80,836

March 31, 2014

Gross Amounts Not Offset in the Balance Sheets

(in thousands of dollars)

ASSETS:	Gross amounts of recognized assets *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of assets presented in the Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral received *Db*	Net amount *E=C-D*
Derivative contracts						
Gas swap contracts	$ 525	$ -	$ 525	$ -	$ -	$ 525
Gas option contracts	612	-	612	-	-	612
Gas purchase contracts	182	-	182	-	-	182
Electric swap contracts	44,122	-	44,122	-	2,800	41,322
Electric option contracts	598	-	598	-	-	598
Total	$ 46,039	$ -	$ 46,039	$ -	$ 2,800	$ 43,239

LIABILITIES:	Gross amounts of recognized liabilities *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of liabilities presented in the Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral paid *Db*	Net amount *E=C-D*
Derivative contracts						
Gas swap contracts	$ 27	$ -	$ 27	$ -	$ -	$ 27
Gas option contracts	175	-	175	-	-	175
Gas purchase contracts	5,105	-	5,105	-	-	5,105
Electric swap contracts	9,671	-	9,671	-	-	9,671
Electric option contracts	10	-	10	-	-	10
Total	$ 14,988	$ -	$ 14,988	$ -	$ -	$ 14,988

7. FAIR VALUE MEASUREMENTS

The following tables present assets and liabilities measured and recorded at fair value in the accompanying balance sheets on a recurring basis and their level within the fair value hierarchy as of March 31, 2015 and 2014:

	March 31, 2015			
	Level 1	Level 2	Level 3	Total
	(in thousands of dollars)			
Assets:				
Derivative contracts				
Gas swap contracts	$ -	$ 3	$ -	$ 3
Gas purchase contracts	-	6	4	10
Electric swap contracts	-	30,979	-	30,979
Available-for-sale securities	20,008	9,926	-	29,934
Total	20,008	40,914	4	60,926
Liabilities:				
Derivative contracts				
Gas swap contracts	-	3,911	-	3,911
Gas option contracts	-	-	65	65
Gas purchase contracts	-	-	170	170
Electric swap contracts	-	87,837	-	87,837
Electric option contracts	-	-	953	953
Total	-	91,748	1,188	92,936
Net assets	$ 20,008	$ (50,834)	$ (1,184)	$ (32,010)

	March 31, 2014			
	Level 1	Level 2	Level 3	Total
	(in thousands of dollars)			
Assets:				
Derivative contracts				
Gas swap contracts	$ -	$ 525	$ -	$ 525
Gas option contracts	-	-	612	612
Gas purchase contracts	-	182	-	182
Electric swap contracts	-	43,982	140	44,122
Electric option contracts	-	-	598	598
Available-for-sale securities	18,818	9,174	-	27,992
Total	18,818	53,863	1,350	74,031
Liabilities:				
Derivative contracts				
Gas swap contracts	-	27	-	27
Gas option contracts	-	-	175	175
Gas purchase contracts	-	5,105	-	5,105
Electric swap contracts	-	9,671	-	9,671
Electric option contracts	-	-	10	10
Total	-	14,803	185	14,988
Net assets	$ 18,818	$ 39,060	$ 1,165	$ 59,043

Derivative Contracts*:* The Company's Level 2 fair value derivative contracts primarily consist of over-the-counter ("OTC") electric and gas swaps and forward gas purchase contracts with pricing inputs obtained from the NYMEX and the Intercontinental Exchange ("ICE"), except in cases where the ICE publishes seasonal averages or where there were no transactions within the last seven days. The Company may utilize discounting based on quoted interest rate curves, including consideration of non-performance risk, and may include a liquidity reserve calculated based on bid/ask spread for the Company's Level 2 derivative contracts. Substantially all of these price curves are observable in the marketplace throughout at least 95% of the remaining contractual quantity, or they could be constructed from market observable curves with correlation coefficients of 95% or higher.

The Company's Level 3 fair value derivative contracts primarily consist of gas option and electric option and swap transactions, which are valued based on internally-developed models. Industry-standard valuation techniques, such as the Black-Scholes pricing model, Monte Carlo simulation, and Financial Engineering Associates libraries are used for valuing such instruments. A derivative is designated Level 3 when it is valued based on a forward curve that is internally developed, extrapolated or derived from market observable curves with correlation coefficients less than 95%, where optionality is present, or if non-economic assumptions are made. The internally developed forward curves have a high level of correlation with Platts Mark-to-Market curves and are reviewed by the middle office. The Company considers non-performance risk and liquidity risk in the valuation of derivative contracts categorized in Level 2 and Level 3.

Available-for-Sale Securities: Available-for-sale securities are included in other non-current assets in the accompanying balance sheets and primarily include equity and debt investments based on quoted market prices (Level 1) and municipal and corporate bonds based on quoted prices of similar traded assets in open markets (Level 2).

Changes in Level 3 Derivative Contracts

	Years Ended March 31,	
	2015	2014
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 1,165**	$ 357
Transfers out of Level 3	**4,743**	818
Total gains or losses included in regulatory assets and liabilities	**(9,270)**	(260)
Settlements	**2,178**	250
Balance as of the end of the year	**$ (1,184)**	$ 1,165

A transfer into Level 3 represents existing assets or liabilities that were previously categorized at a higher level for which the inputs became unobservable during the year. A transfer out of Level 3 represents assets and liabilities that were previously classified as Level 3 for which the inputs became observable based on the criteria discussed previously for classification in Level 2. These transfers, which are recognized at the end of each period, result from changes in the observability of forward curves from the beginning to the end of each reporting period. There were no transfers between Level 1 and Level 2, and no transfers into Level 3, during the years ended March 31, 2015, 2014 or 2013.

Quantitative Information About Level 3 Fair Value Measurements

The following tables provide information about the Company's Level 3 valuations:

Commodity	Level 3 Position	Fair Value as of March 31, 2015			Valuation Technique(s)	Significant Unobservable Input	Range
		Assets	(Liabilities)	Total			
		(in thousands of dollars)					
Gas	Option contracts	$ -	$ (65)	$ (65)	Discounted Cash Flow	Forward Curve Implied Volatility	$0.272-$0.295/dth 34% - 41%
Gas	Physical contracts	4	(170)	(166)	Discounted Cash Flow	Forward Curve	$0.959-$1.270/dth
Electric	Option contracts	-	(953)	(953)	Discounted Cash Flow	Implied Volatility	30% - 69%
	Total	$ 4	$ (1,188)	$ (1,184)			

Commodity	Level 3 Position	Fair Value as of March 31, 2014			Valuation Technique(s)	Significant Unobservable Input	Range
		Assets	(Liabilities)	Total			
		(in thousands of dollars)					
Gas	Option contracts	$ 612	$ (175)	$ 437	Discounted Cash Flow	Forward Curve Implied Volatility	$0.120-$0.720/dth 29% - 31%
Electric	Swap contracts	140	-	140	Discounted Cash Flow	Implied Volatility	29% - 65%
Electric	Option contracts	598	(10)	588	Discounted Cash Flow	Implied Volatility	29% - 65%
	Total	$ 1,350	$ (185)	$ 1,165			

The significant unobservable inputs listed above would have a direct impact on the fair values of the Level 3 instruments if they were adjusted. The significant unobservable inputs used in the fair value measurement of the Company's gas option derivatives and electric option and swap derivatives are implied volatility and gas forward curves. A relative change in commodity price at various locations underlying the open positions can result in significantly different fair value estimates.

Other Fair Value Measurements

The Company's balance sheets reflect long-term debt at amortized cost. The fair value of the Company's long-term debt was based on quoted market prices when available, or estimated using quoted market prices for similar debt. The fair value of this debt at March 31, 2015 and 2014 was $3 billion and $2.6 billion, respectively.

All other financial instruments in the accompanying balance sheets such as accounts receivable, accounts payable, and the intercompany money pool are stated at cost, which approximates fair value.

8. EMPLOYEE BENEFITS

The Company sponsors several qualified and non-qualified non-contributory defined benefit pension plans (the "Pension Plans") and several PBOP plans (the "PBOP Plans," together with the Pension Plans, the "Plans"). The Company calculates benefits under these plans based on age, years of service and pay using March 31 as a measurement date. In addition, the Company also sponsors defined contribution plans for eligible employees.

NGUSA sponsors certain qualified and non-qualified retirement benefit plans. A portion of the cost of these plans is charged to the Company to the extent employee's participating in those plans provide services to the Company. The Company is also allocated costs associated with affiliated service companies' employees for work performed on the Company's behalf.

Pension Plans

The Pension Plans are comprised of both qualified and non-qualified plans. The qualified pension plan provides substantially all union employees, as well as all non-union employees hired before January 1, 2011, with a retirement benefit. The qualified pension plan is a cash balance pension plan design in which pay-based credits are applied based on service time and interest credits are applied at rates set forth in the plan. For non-union employees, effective January 1, 2011, pay-based credits are based on a combination of service time and age. The non-qualified pension plans provide additional defined pension benefits to certain eligible executives. The funding policy is determined largely by the Company's rate agreements with the NYPSC. However, the contribution to the qualified pension plan for any year will not be less than the minimum amount required under Internal Revenue Service ("IRS") regulations. The Company expects to contribute approximately $25.9 million to the qualified pension plan during the year ended March 31, 2016.

PBOP Plans

The Company's PBOP Plans provide health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements and, in most cases, retirees must contribute to the cost of their coverage. The PBOP Plans are funded based on rate agreements with the NYPSC. The Company expects to contribute approximately $41.8 million to the PBOP Plans during the year ended March 31, 2016.

Defined Contribution Plan

NGUSA has a defined contribution pension plan (employee savings fund plan) that covers substantially all employees. For the years ended March 31, 2015, 2014, and 2013, the Company recognized an expense in the accompanying statements of income of $7.9 million, $7.7 million and $7.2 million, respectively, for matching contributions.

Components of Net Periodic Benefit Costs

	Pension Plans		
	Years Ended March 31,		
	2015	2014	2013
	(in thousands of dollars)		
Service cost	**$ 23,583**	$ 24,888	$ 24,772
Interest cost	**60,957**	60,507	63,590
Expected return on plan assets	**(100,068)**	(93,849)	(92,618)
Amortization of prior service cost, net	**3,719**	4,805	4,805
Amortization of net actuarial loss	**52,606**	61,957	77,397
Settlement loss	**-**	13,815	967
Total cost	**$ 40,797**	$ 72,123	$ 78,913

	PBOP Plans		
	Years Ended March 31,		
	2015	2014	2013
	(in thousands of dollars)		
Service cost	**$ 20,687**	$ 20,618	$ 16,676
Interest cost	**76,608**	70,219	68,827
Expected return on plan assets	**(83,046)**	(73,904)	(63,329)
Amortization of prior service cost, net	**12,681**	12,681	12,681
Amortization of net actuarial loss	**27,888**	26,371	37,366
Total cost	**$ 54,818**	$ 55,985	$ 72,221

Amounts Recognized in AOCI and Regulatory Assets

	Pension Plans		
	Years Ended March 31,		
	2015	2014	2013
	(in thousands of dollars)		
Net actuarial loss (gain)	**$ 114,848**	$ (12,327)	$ 4,084
Amortization of net actuarial loss	**(52,606)**	(61,957)	(77,396)
Amortization of prior service cost, net	**(3,719)**	(4,805)	(4,805)
Total	**$ 58,523**	$ (79,089)	$ (78,117)
Included in regulatory assets	**$ 58,285**	$ (77,880)	$ (78,619)
Included in AOCI	**238**	(1,209)	502
Total	**$ 58,523**	$ (79,089)	$ (78,117)

	PBOP Plans		
	Years Ended March 31,		
	2015	2014	2013
	(in thousands of dollars)		
Net actuarial loss	**$ 296,489**	$ 54,283	$ 60,618
Amortization of loss	**(27,888)**	(26,371)	(37,366)
Amortization of prior service cost	**(12,681)**	(12,681)	(12,681)
Total	**$ 255,920**	$ 15,231	$ 10,571
Included in regulatory assets	**$ 255,920**	$ 15,231	$ 10,571
Included in AOCI	**-**	-	-
Total	**$ 255,920**	$ 15,231	$ 10,571

Amounts Recognized in AOCI and Regulatory Assets – not yet recognized as components of net actuarial loss

	Pension Plans		
	Years Ended March 31,		
	2015	2014	2013
	(in thousands of dollars)		
Net actuarial loss	**$ 258,156**	$ 195,914	$ 270,198
Prior service cost	**20,019**	23,738	28,543
Total	**$ 278,175**	$ 219,652	$ 298,741
Included in regulatory assets	**$ 276,574**	$ 218,289	$ 296,168
Included in AOCI	**1,601**	1,363	2,573
Total	**$ 278,175**	$ 219,652	$ 298,741

	PBOP Plans		
	Years Ended March 31,		
	2015	2014	2013
	(in thousands of dollars)		
Net actuarial loss	**$ 460,638**	$ 192,037	$ 164,125
Prior service cost	**(7,441)**	5,240	17,921
Total	**$ 453,197**	$ 197,277	$ 182,046
Included in regulatory assets	**$ 453,197**	$ 197,277	$ 182,046
Included in AOCI	**-**	-	-
Total	**$ 453,197**	$ 197,277	$ 182,046

The NYPSC's statement of policy requires that prior service costs and gains and losses be amortized over a ten year period calculated on a vintage year basis. The amount of net actuarial loss and prior service cost to be amortized from regulatory assets during the year ended March 31, 2016 for the Pension Plans is $65.3 million and $4 million, respectively, and for the PBOP Plans is $58.2 million and $1.9 million, respectively.

Reconciliation of Funded Status to Amount Recognized

	Pension Plans		PBOP Plans	
	Years Ended March 31,		Years Ended March 31,	
	2015	2014	**2015**	2014
	(in thousands of dollars)			
Change in benefit obligation:				
Benefit obligation as of the beginning of the year	**$ (1,449,308)**	$ (1,479,164)	**$ (1,752,928)**	$ (1,605,949)
Service cost	**(28,339)**	(29,883)	**(24,427)**	(23,999)
Interest cost on projected benefit obligation	**(67,418)**	(67,033)	**(81,160)**	(74,154)
Net actuarial loss	**(177,053)**	(41,993)	**(284,758)**	(109,971)
Benefits paid	**94,333**	54,108	**74,835**	71,626
Actual Medicare Part D subsidy received	**-**	-	**(8)**	(282)
Employer group waiver plan subsidy received	**-**	-	**(11,636)**	(10,199)
Settlements	**-**	114,657	**-**	-
Benefit obligation as of the end of the year	**(1,627,785)**	(1,449,308)	**(2,080,082)**	(1,752,928)
Change in plan assets:				
Fair value of plan assets as of the beginning of the year	**1,736,397**	1,772,538	**1,204,634**	1,026,854
Actual return on plan assets	**161,291**	132,212	**58,011**	124,086
Company contributions	**403**	412	**85,553**	125,320
Benefits paid	**(94,333)**	(54,108)	**(74,835)**	(71,626)
Settlements	**-**	(114,657)	**-**	-
Fair value of plan assets as of the end of the year	**1,803,758**	1,736,397	**1,273,363**	1,204,634
Funded status	**$ 175,973**	$ 287,089	**$ (806,719)**	$ (548,294)

The accumulated benefit obligation for all defined benefit pension plans in which the Company participates was approximately $1.6 billion and $1.4 billion at March 31, 2015 and 2014, respectively.

Amounts Recognized in the Accompanying Balance Sheets

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2015	2014	**2015**	2014
	(in thousands of dollars)			
Other non-current assets	**$ 211,565**	$ 310,382	**$ -**	$ -
Current liabilities	**(382)**	(411)	**(7,300)**	(4,600)
Other non-current liabilities	**-**	-	**(740,555)**	(506,034)
Total	**$ 211,183**	$ 309,971	**$ (747,855)**	$ (510,634)

Expected Benefit Payments

Based on current assumptions, the Company expects to make the following benefit payments subsequent to March 31, 2015:

(in thousands of dollars) Years Ended March 31,	Pension Plans	PBOP Plans
2016	$ 153,873	$ 76,895
2017	156,032	79,929
2018	153,811	82,450
2019	146,946	85,283
2020	141,632	87,902
Thereafter	608,782	469,717
Total	$ 1,361,076	$ 882,176

Assumptions Used for Employee Benefits Accounting

	Pension Plans		
	Years Ended March 31,		
	2015	2014	2013
Benefit Obligations:			
Discount rate	**4.10%**	4.80%	4.70%
Rate of compensation increase	**3.50%**	3.50%	3.50%
Expected return on plan assets	**6.00%**	7.00%	6.75%
Net Periodic Benefit Costs:			
Discount rate	**4.80%**	4.70%	5.10%
Rate of compensation increase	**3.50%**	3.50%	3.50%
Expected return on plan assets	**7.00%**	6.75%	6.75%

	PBOP Plans		
	Years Ended March 31,		
	2015	2014	2013
Benefit Obligations:			
Discount rate	**4.10%**	4.80%	4.70%
Rate of compensation increase	**n/a**	n/a	n/a
Expected return on plan assets	**6.25%-6.75%**	7.00%-7.25%	7.00%-7.50%
Net Periodic Benefit Costs:			
Discount rate	**4.80%**	4.70%	5.10%
Rate of compensation increase	**n/a**	n/a	n/a
Expected return on plan assets	**7.00%-7.25%**	7.00%-7.50%	7.50%

The Company selects its discount rate assumption based upon rates of return on highly rated corporate bond yields in the marketplace as of each measurement date. Specifically, the Company uses the Hewitt AA Above Median Curve along with the expected future cash flows from the Company retirement plans to determine the weighted average discount rate assumption.

Mortality assumptions are used to estimate life expectancies of plan participants and the expected period over which they will receive pension benefits. The mortality assumption is composed of a base table that represents the current expectation of life expectancy of the population and an improvement scale that anticipates future improvements in life expectancy. In October 2014, the Society of Actuaries ("SOA") issued updated mortality tables (RP-2014) and a mortality improvement scale (MP-2014), which reflect longer life expectancies than previously projected.

The Company's pension and PBOP obligations as of March 31, 2015 reflect a change in the underlying mortality assumption consistent with the SOA study. These changes resulted in an increase in the projected benefit obligation of $106 million as of March 31, 2015.

The expected rate of return for various passive asset classes is based both on analysis of historical rates of return and forward looking analysis of risk premiums and yields. Current market conditions, such as inflation and interest rates, are evaluated in connection with the setting of the long-term assumptions. A small premium is added for active management of both equity and fixed income securities. The rates of return for each asset class are then weighted in accordance with the actual asset allocation, resulting in a long-term return on asset rate for each plan.

Assumed Health Cost Trend Rate

	March 31,	
	2015	2014
Health care cost trend rate assumed for next year		
Pre 65	**8.00%**	8.00%
Post 65	**6.50%**	7.00%
Prescription	**6.50%**	7.00%
Rate to which the cost trend is assumed to decline (ultimate)	**5.00%**	5.00%
Year that rate reaches ultimate trend		
Pre 65	**2022**	2022
Post 65	**2022**	2021
Prescription	**2022**	2021

Sensitivity to Changes in Assumed Health Care Cost Trend Rates

(in thousands of dollars)	**March 31, 2015**
1% point increase	
Total of service cost plus interest cost	$ 20,242
Postretirement benefit obligation	316,378
1% point decrease	
Total of service cost plus interest cost	(16,673)
Postretirement benefit obligation	(274,475)

Plan Assets

NGUSA manages the benefit plan investments to minimize the long-term cost of operating the plans, with a reasonable level of risk. Risk tolerance is determined as a result of a periodic asset/liability study which analyzes the plans' liabilities and funded status and results in the determination of the allocation of assets across equity and fixed income securities. Equity investments are broadly diversified across U.S. and non-U.S. stocks, as well as across growth, value, and small and large capitalization stocks. Likewise, the fixed income portfolio is broadly diversified across market segments. Small investments are also approved for private equity, real estate, and infrastructure with the objective of enhancing long-term returns while improving portfolio diversification. For the PBOP Plans, since the earnings on a portion of the assets are taxable, those investments are managed to maximize after tax returns consistent with the broad asset class parameters established by the asset allocation study. Investment risk and return are reviewed by NGUSA's investment committee on a quarterly basis.

The target asset allocations for the benefit plans as of March 31, 2015 and 2014 are as follows:

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2015	2014	**2015**	2014
U.S. equities	**17%**	17%	**40%**	40%
Global equities (including U.S.)	**7%**	7%	**6%**	6%
Global tactical asset allocation	**10%**	10%	**9%**	9%
Non-U.S. equities	**6%**	6%	**20%**	20%
Fixed income	**50%**	50%	**25%**	25%
Private equity	**4%**	4%	**0%**	0%
Real estate	**4%**	4%	**0%**	0%
Infrastructure	**2%**	2%	**0%**	0%
	100%	100%	**100%**	100%

Fair Value Measurements

The following tables provide the fair value measurements amounts for the pension and PBOP assets.

	March 31, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
		(in thousands of dollars)		
Pension Assets:				
Cash and cash equivalents	$ 1,394	$ 18,817	$ -	$ 20,211
Accounts receivable	22,683	-	-	22,683
Accounts payable	(20,421)	-	-	(20,421)
Equity	152,747	412,278	67,565	632,590
Global tactical asset allocation	-	-	69,640	69,640
Fixed income securities	-	863,994	11,231	875,225
Preferred securities	-	14,496	-	14,496
Futures contracts	244	-	-	244
Private equity	-	-	94,875	94,875
Real estate	-	-	94,215	94,215
Total	**$ 156,647**	**$ 1,309,585**	**$ 337,526**	**$ 1,803,758**
PBOP Assets:				
Cash and cash equivalents	$ 23,265	$ 304	$ -	$ 23,569
Accounts receivable	2,078	-	-	2,078
Accounts payable	(1,104)	-	-	(1,104)
Equity	177,166	661,829	56,688	895,683
Global tactical asset allocation	34,364	-	62,800	97,164
Fixed income securities	449	255,663	-	256,112
Futures contracts	(139)	-	-	(139)
Total	**$ 236,079**	**$ 917,796**	**$ 119,488**	**$ 1,273,363**

	March 31, 2014			
	Level 1	Level 2	Level 3	Total
		(in thousands of dollars)		
Pension Assets:				
Cash and cash equivalents	$ 1,974	$ 20,449	$ -	$ 22,423
Accounts receivable	11,275	-	-	11,275
Accounts payable	(13,239)	-	-	(13,239)
Equity	145,859	393,053	72,145	611,057
Global tactical asset allocation	-	51,846	13,297	65,143
Fixed income securities	-	851,236	15,972	867,208
Preferred securities	2,423	-	-	2,423
Futures contracts	531	-	-	531
Private equity	-	-	88,345	88,345
Real estate	-	-	81,231	81,231
Total	**$ 148,823**	**$ 1,316,584**	**$ 270,990**	**$ 1,736,397**
PBOP Assets:				
Cash and cash equivalents	$ 27,033	$ 423	$ -	$ 27,456
Accounts receivable	2,460	-	-	2,460
Accounts payable	(3,910)	-	-	(3,910)
Equity	164,046	617,845	59,643	841,534
Global tactical asset allocation	34,156	47,238	11,602	92,996
Fixed income securities	425	243,617	-	244,042
Futures contracts	56	-	-	56
Total	**$ 224,266**	**$ 909,123**	**$ 71,245**	**$ 1,204,634**

The methods used to fair value pension and PBOP assets are described below.

Cash and Cash Equivalents: Cash and cash equivalents that can be priced daily are classified as Level 1. Active reserve funds, reserve deposits, commercial paper, repurchase agreements, and commingled cash equivalents are classified as Level 2. Such instruments are generally valued using a curve methodology that includes observable inputs such as money market rates for specific instruments, programs, currencies and maturity points obtained from a variety of market makers, reflective of current trading levels. The methodologies consider an instrument's days to final maturity to generate a yield based on the relevant curve for the instrument.

Accounts Receivable and Accounts Payable: Accounts receivable and accounts payable are classified in the same category as the investments to which they relate. Such amounts are short-term and settle within a few days of the measurement date.

Equity and Preferred Securities: Common stocks, preferred stocks, and real estate investment trusts are valued using the official close of the primary market on which the individual securities are traded. Equity securities are primarily comprised of securities issued by public companies in domestic and foreign markets plus investments in commingled funds, which are valued on a daily basis. The Company can exchange shares of the publicly traded securities and the fair values are primarily sourced from the closing prices on stock exchanges where there is active trading, in which case they are classified as Level 1 investments. If there is less active trading, then the publicly traded securities would typically be priced using observable data, such as bid and ask prices, and these measurements are classified as Level 2 investments. Investments that are not publicly traded and valued using unobservable inputs are classified as Level 3 investments. Commingled funds with publicly quoted prices and active trading are classified as Level 1 investments. For investments in commingled funds that are not publicly traded and have ongoing subscription and redemption activity, the fair value of the investment is the net asset value (“NAV”) per fund share, derived from the underlying securities’ quoted prices in active markets, and they are classified as Level 2 investments. Investments in commingled funds with redemption restrictions and that use NAV are classified as Level 3 investments.

Global Tactical Asset Allocation: Assets held in global tactical asset allocation funds are managed by investment managers who use both top-down and bottom-up valuation methodologies to value asset classes, countries, industrial sectors, and individual securities in order to allocate and invest assets opportunistically. If the inputs used to measure a financial instrument fall within different levels of the fair value hierarchy within the commingled fund, the categorization is based on the lowest level input that is significant to the measurement of that financial instrument. The assets invested through commingled funds are classified as Level 2. Those which are open ended mutual funds with observable pricing are classified as Level 1. However, the underlying Level 3 assets that makeup these funds are classified in the same category as the investments to which they relate.

Fixed Income Securities: Fixed income securities (which include corporate debt securities, municipal fixed income securities, U.S. Government and Government agency securities including government mortgage backed securities, index linked government bonds, and state and local bonds) convertible securities, and investments in securities lending collateral (which include repurchase agreements, asset backed securities, floating rate notes and time deposits) are valued with an institutional bid valuation. A bid valuation is an estimated price at which a dealer would pay for a security (typically in an institutional round lot). Oftentimes, these evaluations are based on proprietary models which pricing vendors establish for these purposes. In some cases there may be manual sources when primary vendors do not supply prices. Fixed income investments are primarily comprised of fixed income securities and fixed income commingled funds. The prices for direct investments in fixed income securities are generated on a daily basis. Prices generated from less active trading with wider bid ask prices are classified as Level 2 investments. If prices are based on uncorroborated and unobservable inputs, then the investments are classified as Level 3 investments. Commingled funds with publicly quoted prices and active trading are classified as Level 1 investments. For commingled funds that are not publicly traded and have ongoing subscription and redemption activity, the fair value of the investment is the NAV per fund share, derived from the underlying securities' quoted prices in active markets, and are classified as Level 2 investments. Investments in commingled funds with redemption restrictions and that use NAV are classified as Level 3.

Private Equity and Real Estate: Commingled equity funds, commingled special equity funds, limited partnerships, real estate, venture capital and other investments are valued using evaluations (NAV per fund share), based on proprietary models, or based on the NAV. Investments in private equity and real estate funds are primarily invested in privately held real estate investment properties, trusts, and partnerships as well as equity and debt issued by public or private companies. The Company's interest in the fund or partnership is estimated based on the NAV. The Company's interest in these funds cannot be readily redeemed due to the inherent lack of liquidity and the primarily long-term nature of the underlying assets. Distribution is made through the liquidation of the underlying assets. The Company views these investments as part of a long-term investment strategy. These investments are valued by each investment manager based on the underlying assets. The funds utilize valuation techniques consistent with the market, income, and cost approaches to measure the fair value of certain real estate investments. The majority of the underlying assets are valued using significant unobservable inputs and often require significant management judgment or estimation based on the best available information. Market data includes observations of the trading multiples of public companies considered comparable to the private companies being valued. As a result, the Company classifies these investments as Level 3.

While management believes its valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of Level 3 financial instruments could result in a different fair value measurement at the reporting date.

Changes in Level 3 Plan Investments

	Pension Plans		PBOP Plans	
	Years Ended March 31,		Years Ended March 31,	
	2015	2014	**2015**	2014
	(in thousands of dollars)			
Balance as of the beginning of the year	**$ 270,990**	$ 201,498	**$ 71,245**	$ 17,175
Transfers out of Level 3	**(89,977)**	(15,974)	**-**	-
Transfers into Level 3	**101,182**	64,179	**-**	47,026
Actual gain or loss on plan assets:				
Realized gain	**19,234**	9,096	**4,889**	591
Unrealized gain (loss)	**17,668**	7,977	**7,404**	(1,160)
Purchases	**130,065**	191,721	**41,824**	8,204
Sales	**(111,636)**	(187,507)	**(5,874)**	(591)
Balance as of the end of the year	**$ 337,526**	$ 270,990	**$ 119,488**	$ 71,245

Other Benefits

At March 31, 2015 and 2014, the Company had accrued workers compensation, auto, and general insurance claims which have been incurred but not yet reported of $14.4 million and $10.7 million, respectively.

9. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table represents the changes in the Company's AOCI for the year ended March 31, 2015:

	Unrealized Gain (Loss) on Available-for-sale Securities	Pension and Other Postretirement Benefits	Total
	(in thousands of dollars)		
Balance as of the beginning of the year	$ 2,248	$ (668)	$ 1,580
Other comprehensive income before reclassifications:			
Unrecognized net acturial loss (net of $0 and $133 tax benefit, respectively)	-	(204)	(204)
Gain on investment (net of $588 tax expense and $0, respectively)	897	-	897
Amounts reclassified from other comprehensive income:			
Amortization of net actuarial loss (net of $0 and $$39 tax expense, respectively)	-	60	60
Gain on investment (net of $321 tax benefit and $0 , respectively) [1]	(490)	-	(490)
Net current period other comprehensive income	407	(144)	263
Balance as of the end of the year	2,655	(812)	1,843

[1] Amounts are reported as other income, net in the accompanying statements of income.

10. CAPITALIZATION

Debt Authorizations

The Company had regulatory approval from the FERC to issue up to $1 billion of short-term debt, which expired on November 30, 2013. The Company's subsequent request for short-term borrowing authority was approved and became effective January 12, 2015 for a period of two years.

Effective April 25, 2014, the Company entered into an Equity Contribution Agreement with the Parent which provided the Company with the ability to call upon the Parent for contributions to the Company's capital, in an aggregate amount equal to the short-term borrowing limit, until such time as regulatory approval for short-term borrowing was regained. The Company did not make use of this Equity Contribution Agreement; however, prior to the agreement the Company had received an equity contribution of $25 million in February 2014. Since the Company has regained its short-term borrowing authority, as of January 12, 2015, the Equity Contribution Agreement is no longer in effect. The Company had no short-term debt outstanding to third-parties as of March 31, 2015 or 2014.

In September 2012, the NYPSC granted multi-year authority to issue up to $1.6 billion in new long-term debt securities through the period ending March 31, 2016. In November 2012, the Company issued $400 million and $300 million of unsecured long-term debt, and in September 2014, the Company issued $500 million and $400 million of unsecured long-term debt under this authority.

State Authority Financing Bonds

The assets of the Company are subject to liens and other charges and are provided as collateral over borrowings of $504 million of State Authority Financing Bonds. These bonds were issued to secure a like amount of tax-exempt revenue bonds issued by the New York State Energy Research and Development Authority ("NYSERDA"). Approximately $429 million of such securities bear interest at short-term adjustable interest rates (with an option to convert to other rates, including a fixed interest rate) ranging from 0.37% to 0.45% for the year ended March 31, 2015. The bonds are currently in auction rate mode and are backed by bond insurance. These bonds cannot be put back to the Company and, in the case of a failed auction, the resulting interest rate on the bonds would revert to the maximum auction rate which depends on the current appropriate, short-term benchmark rate and the senior secured rating of the Company or the bond insurer, whichever is greater. The effect on interest expense has not been material in any of the years ended March 31, 2015, 2014, or 2013.

In March 2015, the Company executed the optional redemption provision of the NYSERDA Pollution Control Revenue Bonds Series 1985 A in the amount of $100 million. The bonds were scheduled to mature on July 1, 2015.

The Company also has $75 million of 5.15% fixed rate pollution control revenue bonds issued through NYSERDA which are callable at par. Pursuant to agreements between NYSERDA and the Company, proceeds from such issues were used for the purpose of financing the construction of certain pollution control facilities at the Company's generation facilities (which the Company subsequently sold) or to refund outstanding tax-exempt bonds and notes.

Debt Maturities

The aggregate maturities of long-term debt for the years subsequent to March 31, 2015 are as follows:

(in thousands of dollars) Years Ending March 31,	
2016	$ -
2017	-
2018	-
2019	-
2020	750,000
Thereafter	2,104,465
Total	$ 2,854,465

Dividend Restrictions

The Company's debt and credit arrangements contain various financial and other covenants as described below. The Company was in compliance with all such covenants during the years ended March 31, 2015, 2014, and 2013.

The indenture securing the Company's mortgage debt provides that retained earnings shall be reserved and held unavailable for the payment of dividends on common stock to the extent that expenditures for maintenance and repairs plus provisions for depreciation do not exceed 2.25% of depreciable property as defined therein. These provisions have never resulted in a restriction of the Company's retained earnings.

The Company is limited by the Merger Rate Plan, NYPSC orders, and FERC orders with respect to the amount of dividends the Company can pay. As long as the bond ratings on the least secure forms of debt issued by the Company and National Grid plc remain investment grade and do not fall to the lowest investment grade rating (with one or more negative watch downgrade notices issued with respect to such debt), the Company is allowed to pay dividends.

Cumulative Preferred Stock

The Company has certain issues of non-participating cumulative preferred stock outstanding which can be redeemed at the option of the Company. There are no mandatory redemption provisions on the Company's cumulative preferred stock. A summary of cumulative preferred stock is as follows:

	Shares Outstanding		**Amount**		
	March 31,		**March 31,**		**Call**
Series	**2015**	2014	**2015**	2014	**Price**
	(in thousands of dollars, except per share and number of shares data)				
$100 par value -					
3.40% Series	**57,524**	57,524	**$ 5,753**	$ 5,753	$ 103.500
3.60% Series	**137,152**	137,152	**13,715**	13,715	104.850
3.90% Series	**95,171**	95,171	**9,517**	9,517	106.000
Golden Share	**1**	1	**-**	-	Non-callable
Total	**289,848**	289,848	**$ 28,985**	$ 28,985	

In connection with the acquisition of KeySpan by NGUSA, the Company became subject to a requirement to issue a class of preferred stock, having one share (the "Golden Share"), subordinate to any existing preferred stock. The holder of the Golden Share would have voting rights that limit the Company's right to commence any voluntary bankruptcy, liquidation, receivership or similar proceeding without the consent of the holder of the Golden Share. The NYPSC subsequently authorized the issuance of the Golden Share to a trustee, GSS Holdings, Inc. ("GSS"), who will hold the Golden Share subject to a Services and Indemnity Agreement requiring GSS to vote the Golden Share in the best interests of New York State. On July 8, 2011, the Company issued the Golden Share with a par value of $1.

The Company did not redeem any preferred stock during the years ended March 31, 2015, 2014, or 2013. The annual dividend requirement for cumulative preferred stock was approximately $1.1 million for each of the years ended March 31, 2015, 2014, and 2013.

11. INCOME TAXES

Components of Income Tax Expense

	Years Ended March 31,		
	2015	2014	2013
	(in thousands of dollars)		
Current tax expense (benefit):			
Federal	**$ (9,498)**	$ 22,946	$ (8,381)
State	**11,869**	7,187	6,122
Total current tax expense (benefit)	**2,371**	30,133	(2,259)
Deferred tax expense:			
Federal	**81,468**	79,859	90,250
State	**12,970**	18,227	15,567
Total deferred tax expense	**94,438**	98,086	105,817
Amortized investment tax credits [1]	**(1,936)**	(1,936)	(1,976)
Total deferred tax expense	**92,502**	96,150	103,841
Total income tax expense	**$ 94,873**	$ 126,283	$ 101,582

[1] Investment tax credits ("ITC") are being deferred and amortized over the depreciable life of the property giving rise to the credits.

Statutory Rate Reconciliation

The Company's effective tax rates for the years ended March 31, 2015, 2014, and 2013 are 35%, 35%, and 35.5%, respectively. The following table presents a reconciliation of income tax expense at the federal statutory tax rate of 35% to the actual tax expense:

	Years Ended March 31,		
	2015	2014	2013
	(in thousands of dollars)		
Computed tax	**$ 95,005**	$ 126,188	$ 100,170
Change in computed taxes resulting from:			
Allowance for equity funds used during construction	**(3,722)**	(4,342)	(2,498)
Investment tax credits	**(1,936)**	(1,936)	(1,976)
State income tax, net of federal benefit	**16,144**	16,519	14,098
Temporary differences flowed through	**(5,053)**	(4,247)	(3,697)
Other items, net	**(5,565)**	(5,899)	(4,515)
Total	**(132)**	95	1,412
Federal and state income taxes	**$ 94,873**	$ 126,283	$ 101,582

The Company is included in the NGNA and subsidiaries consolidated federal income tax return. The Company has joint and several liability for any potential assessments against the consolidated group.

In September 2013, the U.S. Department of the Treasury issued final tangible property regulations which provide guidance for the application of IRC §162(a) and IRC §263(a) to amounts paid to acquire, produce, or improve tangible property. In August 2014, the U.S. Department of the Treasury also finalized the depreciable property disposition regulations. Both sets of regulations become effective for tax years beginning on or after January 1, 2014, which, for the Company, is the fiscal year ended March 31, 2015. The Company intends to adopt these regulations with its fiscal year 2015 federal tax return and has estimated a favorable §481(a) adjustment of $53.9 million related to dispositions of depreciable property and unfavorable 481(a) adjustment of $38.3 million related to repairs deduction following casualty loss.

On March 31, 2014, New York's legislature enacted, as part of the 2014-15 budget package, legislation which included significant tax changes. For tax years beginning on or after January 1, 2016, the New York corporate franchise rate is reduced from 7.1% to 6.5%. Additionally, for tax years beginning on or after January 1, 2015, New York State will generally require combined reporting if the taxpayer is engaged in a unitary business and a 50% common ownership test is met. As of March 31, 2014, the Company remeasured its New York State deferred tax assets and liabilities based upon the enacted law that will apply when the corresponding state temporary differences are expected to be realized or settled. Specifically, to reflect the decrease in tax rate, the Company decreased its New York State deferred tax liability by $14.3 million with an offset to regulatory liabilities. During the year ended March 31, 2015, the Company updated the impact of the tax rate change and further decreased its New York State deferred tax liability by $0.7 million with an offset to regulatory liabilities.

Deferred Tax Components

	March 31,	
	2015	2014
	(in thousands of dollars)	
Deferred tax assets:		
Allowance for doubtful accounts	**$ 55,373**	$ 50,100
Environmental remediation costs	**172,574**	180,185
Future federal benefit on state taxes	**50,587**	42,148
Postretirement benefits and other employee benefits	**256,583**	111,715
Regulatory liabilities - other	**210,396**	166,505
Other items	**50,955**	34,452
Total deferred tax assets [1]	**796,468**	585,105
Deferred tax liabilities:		
Property related differences	**2,045,876**	1,837,413
Regulatory assets - environmental response costs	**159,104**	167,270
Regulatory assets - postretirement benefits	**262,498**	133,236
Other items	**85,637**	98,271
Total deferred tax liabilities	**2,553,115**	2,236,190
Net deferred income tax liabilities	**1,756,647**	1,651,085
Deferred investment tax credits	**20,038**	21,974
Net deferred income tax liabilities and investment tax credits	**1,776,685**	1,673,059
Current portion of deferred income tax assets, net	**(165,036)**	(92,939)
Deferred income tax liabilities, net	**$ 1,941,721**	$ 1,765,998

(1) There were no valuation allowances for deferred tax assets at March 31, 2015 or 2014.

Unrecognized Tax Benefits

As of March 31, 2015 and 2014, the Company's unrecognized tax benefits totaled $128.1 million and $121 million, respectively, of which $6.7 million and $12.4 million, respectively, would affect the effective tax rate, if recognized. The unrecognized tax benefits are included in other non-current liabilities in the accompanying balance sheets.

The following table presents changes to the Company's unrecognized tax benefits:

	Years Ended March 31,		
	2015	2014	2013
		(in thousands of dollars)	
Balance as of the beginning of the year	**$ 120,983**	$ 120,195	$ 159,526
Gross increases - tax positions in prior periods	**7,925**	9,028	131
Gross decreases - tax positions in prior periods	**(10,234)**	(335)	(37,301)
Gross increases - current period tax positions	**9,431**	3,917	2,738
Gross decreases - current period tax positions	**-**	(41)	(4,899)
Settlements with tax authorities	**-**	(11,781)	-
Balance as of the end of the year	**$ 128,105**	$ 120,983	$ 120,195

As of March 31, 2015 and 2014, the Company has accrued for interest related to unrecognized tax benefits of $10.8 million and $10.4 million, respectively. During the years ended March 31, 2015, 2014, and 2013, the Company recorded a reduction to interest expense of $3.4 million, $1.3 million and $1.4 million, respectively. The Company recognizes interest related to unrecognized tax benefits in other interest, including affiliate interest and related penalties, if applicable, in other income, net in the accompanying statements of income. No tax penalties were recognized during the years ended March 31, 2015, 2014, or 2013.

It is reasonably possible that other events will occur during the next twelve months that would cause the total amount of unrecognized tax benefits to increase or decrease. However, the Company does not believe any such increases or decreases would be material to its results of operations, financial position, or cash flows.

Federal income tax returns have been examined and all appeals and issues have been agreed with the IRS and the NGNA consolidated filing group through March 31, 2007.

During the year ended March 31, 2014, the IRS concluded its examination of the NGNA consolidated filing group's corporate income tax returns for the years ended March 31, 2008 and 2009. These examinations were completed on March 31, 2014, with an agreement on the majority of income tax issues for the years referenced above, as well as an acknowledgment that certain discrete items remain disputed. NGNA is in the process of appealing these disputed issues with the IRS Office of Appeals. The Company does not anticipate a change in its unrecognized tax positions in the next twelve months as a result of the appeals. However, pursuant to the Company's tax sharing agreement, the audit or appeals may result in a change to allocated tax. The tax returns for the years ended March 31, 2010 through March 31, 2015 remain subject to examination by the IRS.

During the year ended March 31, 2015, the State of New York concluded its examination of the Company's New York State income tax returns for the years ended March 31, 2006 through March 31, 2008. The examination did not result in adjustments to the Company's taxable income. The tax returns for the years ended March 31, 2009 through March 31, 2015 remain subject to examination by the State of New York.

The following table indicates the earliest tax year subject to examination for each major jurisdiction:

Jurisdiction	Tax Year
Federal	March 31, 2008 *
New York	March 31, 2009

* The NGNA consolidated filings group is in the process of appealing certain disputed issues with the IRS Office of Appeals for the years ended March 31, 2008 through March 31, 2009.

12. ENVIRONMENTAL MATTERS

The normal ongoing operations and historic activities of the Company are subject to various federal, state and local environmental laws and regulations. Under federal and state Superfund laws, potential liability for the historic contamination of property may be imposed on responsible parties jointly and severally, without regard to fault, even if the activities were lawful when they occurred.

The United States Environmental Protection Agency ("EPA"), and the New York State Department of Environmental Conservation ("DEC"), as well as private entities, have alleged that the Company is a potentially responsible party under state or federal law for the remediation of numerous sites. The Company's most significant liabilities relate to former Manufactured Gas Plant ("MGP") facilities formerly owned or operated by the Company. The Company is currently investigating and remediating, as necessary, those MGP sites and certain other properties under agreements with the EPA and the DEC. Expenditures incurred for the years ended March 31, 2015, 2014, and 2013 were $32.6 million, $41.6 million and $31.4 million, respectively.

The Company estimated the remaining costs of environmental remediation activities were $415.2 million and $432.9 million at March 31, 2015 and 2014, respectively. These costs are expected to be incurred over approximately 40 years, and these undiscounted amounts have been recorded as reserves in the accompanying balance sheets. However, remediation costs for each site may be materially higher than estimated, depending on changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered. The Company has recovered amounts from certain insurers and potentially responsible parties, and, where appropriate, the Company may seek additional recovery from other insurers and from other potentially responsible parties, but it is uncertain whether, and to what extent, such efforts will be successful.

By rate orders issued and effective March 15, 2013, the NYPSC has provided an annual rate allowance of $42 million ($35.7 million in electric base rates and $6.3 million in gas base rates). Any annual spend above the $42 million rate allowance is deferred for future recovery. Previous rate orders have provided for similar recovery mechanisms (with different rate allowances and thresholds). Accordingly, as of March 31, 2015 and 2014, the Company has recorded environmental regulatory assets of $415.2 million and $432.9 million, respectively, and environmental regulatory liabilities of $31.8 million and $23.8 million, respectively.

The Company believes that its ongoing operations, and its approach to addressing conditions at historic sites, are in substantial compliance with all applicable environmental laws. Where the Company has regulatory recovery, it believes that the obligations imposed on it because of the environmental laws will not have a material impact on its results of operations or financial position.

13. COMMITMENTS AND CONTINGENCIES

Operating Lease Obligations

The Company has various operating leases relating to office space. Total rental expense for operating leases included in operations and maintenance expense in the accompanying statements of income was $4.9 million, $4.6 million, and $4 million for the years ended March 31, 2015, 2014, and 2013, respectively.

The future minimum lease payments for the years subsequent to March 31, 2015 are as follows:

(in thousands of dollars) Years Ending March 31,	
2016	$ 4,853
2017	4,927
2018	4,868
2019	4,603
2020	4,584
Thereafter	24,000
Total	$ 47,835

Purchase Commitments

The Company has several long-term contracts for the purchase of electricity and gas, gas storage, and supply services. Certain of these contracts require payment of annual demand charges. The Company is liable for these payments regardless of the level of services required from third-parties. Such charges are currently recovered from customers as purchased electricity and gas. In addition, the Company has various capital commitments related to the construction of property, plant, and equipment.

The Company's commitments under these long-term contracts for the years subsequent to March 31, 2015 are summarized in the table below:

(in thousands of dollars) Years Ending March 31,	Energy Purchases	Capital Expenditures
2016	$ 173,851	$ 101,286
2017	160,686	4,057
2018	148,368	-
2019	134,550	-
2020	133,828	-
Thereafter	729,481	-
Total	$ 1,480,764	$ 105,343

The Company can purchase additional energy to meet load requirements from independent power producers, other utilities, energy merchants or the NYISO at market prices.

Legal Matters

The Company is subject to various legal proceedings arising out of the ordinary course of its business. The Company does not consider any of such proceedings to be material, individually or in the aggregate, to its business or likely to result in a material adverse effect on its results of operations, financial position, or cash flows.

Nuclear Contingencies

As of March 31, 2015 and 2014, the Company had a liability of approximately $168 million, recorded in other non-current liabilities in the accompanying balance sheets, for the disposal of nuclear fuel irradiated prior to 1983. The Nuclear Waste Policy Act of 1982 provides three payment options for liquidating such liability and the Company has elected to delay payment, with interest, until the year in which Constellation Energy Group Inc., which purchased the Company's nuclear assets, initially plans to ship irradiated fuel to an approved DOE disposal facility.

In March 2010, the DOE filed a motion with the Nuclear Regulatory Commission ("NRC") to withdraw the license application for a high-level nuclear waste repository at Yucca Mountain. The DOE's withdrawal motion has been challenged and is being litigated before the NRC and the District of Columbia Circuit. In January 2010 the U.S. government announced that it has established a Blue Ribbon Commission ("BRC") to perform a comprehensive review and provide recommendations regarding the disposal of the nation's spent nuclear fuel and waste. In January 2012, the BRC issued its report and recommendations which provides for numerous policy recommendations currently under review and consideration by the U.S. Secretary of Energy. Therefore, the Company cannot predict the impact that the recent actions of the DOE and the U.S. government will have on the ability to dispose of the spent nuclear fuel and waste.

14. RELATED PARTY TRANSACTIONS

Accounts Receivable from and Accounts Payable to Affiliates

NGUSA and its affiliates provide various services to the Company, including executive and administrative, customer services, financial (including accounting, auditing, risk management, tax, and treasury/finance), human resources, information technology, legal and strategic planning, that are charged between the companies and charged to each company.

The Company records short-term receivables from, and payables to, certain of its affiliates in the ordinary course of business. The amounts receivable from, and payable to, its affiliates do not bear interest and are settled through the intercompany money pool. A summary of net outstanding accounts receivable from affiliates and accounts payable to affiliates is as follows:

	Accounts Receivable from Affiliates		Accounts Payable to Affiliates	
	March 31,		March 31,	
	2015	2014	**2015**	2014
	(in thousands of dollars)		*(in thousands of dollars)*	
Boston Gas Company	**$ -**	$ 351	**$ 1,699**	$ -
Brooklyn Union Gas Company	**-**	901	**180**	-
KeySpan Gas East Corporation	**-**	1,085	**452**	-
Massachusetts Electric Company	**8,057**	4,966	**-**	-
National Grid Engineering Services, LLC	**2,643**	4,836	**-**	-
NGUSA	**-**	-	**4,240**	2,419
NGUSA Service Company	**7,236**	-	**-**	54,885
Opinac North America, Inc.	**-**	-	**-**	16,999
The Narragansett Electric Company	**429**	-	**-**	1,215
Other	**805**	508	**1,327**	1,316
Total	**$ 19,170**	$ 12,647	**$ 7,898**	$ 76,834

Advances from Affiliates

In June 2009, the Company received board authorization to borrow up to $500 million from the direct or indirect parent from time to time for working capital needs. The advance is non-interest bearing. At March 31, 2015 and 2014, the Company had an outstanding advance from affiliate of $25 million and $200 million, respectively.

In June 2009, the Company received board authorization to borrow up to $450 million from Niagara Mohawk Holdings, Inc. from time to time for working capital needs. The average interest rates were 0.3%, 0.7%, and 0.6% for the years ended March 31, 2015, 2014, and 2013, respectively. At March 31, 2015 and 2014, the Company had an outstanding advance from affiliates of zero and $25 million, respectively.

Intercompany Money Pool

The settlement of the Company's various transactions with NGUSA and certain affiliates generally occurs via the intercompany money pool in which it participates. The Company is a participant in the Regulated Money Pool and can both borrow and invest funds. Borrowings from the Regulated Money Pool bear interest in accordance with the terms of the Regulated Money Pool Agreement. As the Company fully participates in the Regulated Money Pool rather than settling intercompany charges with cash, all changes in the intercompany money pool balance and accounts receivable from affiliates and accounts payable to affiliates balances, are reflected as investing or financing activities in the accompanying statements of cash flows. In addition, for the purpose of presentation in the statement of cash flows, it is assumed all amounts settled through intercompany money pool are constructive cash receipts and payments, and therefore are presented as such.

The Regulated Money Pool is funded by operating funds from participants. Collectively, NGUSA and its subsidiary, KeySpan, have the ability to borrow up to $3 billion from National Grid plc for working capital needs including funding of the intercompany money pools, if necessary. The Company had short-term intercompany money pool investments of $278 million and $131.7 million at March 31, 2015 and 2014, respectively. The average interest rates for the intercompany money pool were 0.3%, 0.7%, and 0.6% for the years ended March 31, 2015, 2014, and 2013, respectively.

Service Company Charges

The affiliated service companies of NGUSA provide certain services to the Company at their cost. The service company costs are generally allocated to associated companies through a tiered approach. First and foremost, costs are directly charged to the benefited company whenever practicable. Secondly, in cases where direct charging cannot be readily determined, costs are allocated using cost/causation principles linked to the relationship of that type of service, such as number of employees, number of customers/meters, capital expenditures, value of property owned, total transmission and distribution expenditures. Lastly, when a specific cost/causation principle is not determinable, costs are allocated based on a general allocator determined using a 3-point formula based on net margin, net property, plant and equipment, and operations and maintenance expense.

Net charges from the service companies of NGUSA to the Company for the years ended March 31, 2015, 2014, and 2013 were $467 million, $463.7 million and $498.9 million, respectively.

Holding Company Charges

NGUSA received charges from National Grid Commercial Holdings Limited (an affiliated company in the U.K.) for certain corporate and administrative services provided by the corporate functions of National Grid plc to its U.S. subsidiaries. These charges, which are recorded on the books of NGUSA, have not been reflected in these financial statements. The estimated effect on net income would be $14.1 million, $15 million, and $12.6 million before taxes and $8.5 million, $9.1 million, and $8.2 million after taxes, for the years ended March 31, 2015, 2014, and 2013, respectively, if these amounts were allocated to the Company.